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AUTHOR Lanham, Frank W.
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ABSTRACT

This handbook is intended for school decision-makers who need to evaluate the validity of financial data before making management judgments. The book is an analysis of what is contained in various kinds of school accounts in relation to what could be or should be contained. The book is for self-directed study, estimated to require not more than six to eight hours to complete. A "scrambled" book format is used with each sheet consisting of two pages with each page having one or more directions to follow. According to the answers given to the problems, directions are given for the next page. The following topics are covered in four chapters: (1) Assets, Liabilities, and Equities; (2) The Flow of Revenue and Expense; (3) Classification of School Accounting Data; and (4) Factors in Evaluation of Classified School Accounting Data. (MLF)

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# The Meaning of School Accounts

by
Frank W. Lanham
Professor Emeritus of Education
The University of Michigan
and
Wayne State University

A SELF-INSTRUCTIONAL TEXT
(4th Edition)

EA 018 105

The University Council for Educational Administration
108 Farmer Building, Tempe, Arizona 85287 (602) 965-6690

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## FOREWORD

--TO FIRST EDITION

The MEANING OF SCHOOL ACCOUNTS will, on the average, require not more than six to eight hours to complete--even for the neophyte. Don't plan to be an accountant or school bookkeeper when you finish your study. The technician's training for keeping school books, we'll leave to others.

The MEANING OF SCHOOL ACCOUNTS focuses on analysis of what is contained in various kinds of school accounts in relation to what could be or should be. As such, this book is intended for school decision-makers who need to evaluate the validity of financial data before making management judgments.

We believe you will enjoy this brief encounter with the analysis of your school's financial data.

Frank W. Lanham
The University of Michigan, 1962

--TO FOURTH EDITION

Completely revised and restructured, this Fourth Edition of THE MEANING OF SCHOOL ACCOUNTS retains its original purpose: to acquaint school administrators and their boards with the nature of financial data in the numerous reports developed from their school's accounts.

For help in bringing this revision to fruition, we acknowledge the following:

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Frank W. Lanham
65 Annapolis Lane
Rotonda West, FL 33947
June, 1983

## Assets, Liabilities, and Equities

A word about using this book: The Meaning of School Accounts is not an ordinary textbook. Each sheet contains two pages. You are at Page 1 now. Look at the bottom half of the sheet and you will see Page 2. Read Page 2 before continuing with Page 1.

You are now back from P.2. Your answers on P.2 should have been P.3 and P.4, since each sheet of text contains two pages. O.K.? One important difference in this textbook you have now discovered: Each page will direct you where to go for the next reading.

Now you are ready to begin your study of The Meaning of School Accounts.

DIRECTION: Turn to P.5.



From P.1. You are at P.2 despite your feeling that it is but the bottom half of the first page. What page would you expect the upper half of the next sheet to be? The bottom half?

DIRECTION: Answer the questions and return to the second paragraph on P.1 to check these answers and continue the discussion.

You are on the wrong page! This is Page 3. (Note: P.4 is the lower half of this sheet.) See how the pagination differs from an ordinary book?

Some people call this textook a "scrambled" book. Each sheet has two pages and each page will have one or more directions to follow. According to your answer, you will go to the page directed. At times, you may be directed to go forward ten pages, say, to P.13; or move backwards, as in this instance, to P.1.

DIRECTION: Return to P.1 to re-read the system of providing two pages to a sheet or, if you do understand the system, go to P.5 (top page of the next sheet).



From P.9. Your answer was: (A)$1,250=(L)$1,250+(E)-0-. FINE.

Try an example now from School District X to nail down the point. (This illustration and the following will determine whether you need additional help to understand the equation or the terms we are using.) School District X has accumulated cash of $500,000 for future buildings. Represented in equation form, this position can be represented as follows:

| A | = | L | + | E |
|---|---|---|---|---|
| Cash | | | | School Dist. X |
| $500,000 | = | (?) | + | (?) |

DIRECTION: Check your answer on P.8.

From P.1 or P.3. GOOD. You have turned to this page because you understand how to use this book. The scrambled order of the pages you will read will help you get to the information you need at once. You are now ready to study some basic ideas about accounting in general and school accounts in particular. Here's the first idea:

ASSETS equal LIABILITIES plus EQUITIES, or abbreviated, A=L+E. The purpose of this chapter is to provide you with an understanding of the above equation. This understanding is basic for analyzing financial transactions of a school. First, a direction to read and follow:

DIRECTION: (a) If you have previously studied accounting, turn to P.58 to take the test covering the first chapter. You may not need to study the remainder of this chapter! (b) If you have not previously studied accounting, turn to P.7 to continue the discussion of the fundamental equation, A=L+E.



From P.9. Whoops, something is wrong. You didn't get the right answer to the equation. Review the problem: Proctor's Hardware purchased a new neon sign for $1,250 on credit. If you had understood the terms, (A), (L), and (E), you would have known that:

| A | = | L | + | E |
|---|---|---|---|---|
| Equipment | = | Liability | + | Equity |
| $1,250 | = | $1,250 | + | -0- |

In other words, you OWE $1,250, not OWN it.

DIRECTION: Now return to P.9 to follow the other direction.

From P.5. The reasonableness of the equation, A=L+E, can be demonstrated in any financial transaction of a school, business, or personal life. For example, you buy an automobile, an asset (A) for $8,000. You pay $2,000 in cash and give a note to your bank for the balance. Asset (Automobile), $8,000 equals Liability (Note Payable), $6,000, plus Equity (Your Ownership Rights), $2,000.

| A (Asset) | = | L (Liability) | + | E (Equity) |
|---|---|---|---|---|
| $8,000 | = | $6,000 | + | $2,000 |
| Automobile | = | Note payable | + | Ownership |

O.K.? Try another one. You purchase a piece of land for your future home and agree to pay $18,000 for it, $2,500 in cash at the time of purchase and a land contract for the balance. Complete the equation:

| A (Asset) | = | L (Liability) | + | E (Equity) |
|---|---|---|---|---|
| Land | = | Land Contract | + | Ownership |
| $18,000 | = | ? | + | ? |

DIRECTION: (a) If your answer is L=$15,500 and E=$2,500, go to P.10. (b) If you have some other answer or don't know the answer to the question asked, go to P.9.



From P.4. Your answer should be (A) $500,000 = (L) -0- + (E) $500,000. Now suppose School District X completes a $3,000,000 community college building by floating a $2,800,000 bond issue (authorized, to be sure, by sympathetic taxpayers), and uses part of the cash assets to pay off the balance owed of $200,000. Look at the changes resulting from the transactions:

| | A | | = | L | + | E |
|---|---|---|---|---|---|---|
| Cash | + | $ 500,000 | = | -0- | + | $500,000 |
| Cash | - | 200,000 | | | | |
| Building | + | 3,000,000 | | Bonds + 2,800,000 | | |
| Totals | (A) | $3,300,000 | = | (L) $2,800,000 | | +(E)$500,000 |

DIRECTION: (a) If you had no difficulty following the illustration, turn to P.10. (b) If you do not understand the terminology or its meaning is hazy, turn to P.12. (c) If the equation is what you don't understand, turn to P.11.

From P.7. You are here because you did not feel you knew the answer. That's O.K., you soon will.

Let's look at the problem again. The value of the ASSET, Land, you purchased is $18,000. You paid $2,500 in cash and signed a land contract for the balance owed (LIABILITY) of $15,500, i.e., $18,000 less $2,500. Right? You own or have rights (EQUITY) of the difference between the ASSET value and the LIABILITY value or $2,500.

Let's try another one. Proctor's Hardware purchased a new neon sign for $1,250 on credit.

| A | = | L | + | E |
|---|---|---|---|---|
| Equipment | | Vendor | | Proctor's Hardware |
| ? | = | ? | + | ? |

DIRECTION: If your answer was: Equipment (A), $1,250 = Vendor (L), $1,250 + Proctor's Hardware (E), -0-, turn to P.4. If your answer was: Equipment (A) $1,250 = (L) -0- + Proctor's Hardware (E) $1,250, turn to P.6.



From P.7 or 8. Your answers indicate that you are ready to move on to something else. GOOD! You either have a grasp of the fundamental equation, A=L+E, from knowledge gained previously, or you have gone through some of the additional discussion that has brought you to an understanding of ASSETS, LIABILITIES and EQUITIES.

DIRECTION: (a) If you have any previous knowledge of accounting, even though it is vague, turn to P.58 for the Chapter 1 test. We want to save your time. Do not worry; you won't get into trouble doing this. If there are parts of the test you don't know, you'll be directed to the portion of the chapter you need to review. (b) Yet, if you feel a need to continue your discussion of the fundamental equation by reviewing additional examples of how the equation can be changed, turn to P.11.

From P.8 or P.10. You want to continue the discussion of A=L+E. It is good to recognize when you don't understand. If you will continue to do so in this self-study of The Meaning of School Accounts, you'll soon master the content.

Now look at your problem. If you understand the vocabulary, knowing why A (ASSETS) equal L (LIABILITIES) plus E (EQUITIES) will be easy. Consider the community college building of $3,000,000 in School District X. As you know, accounting deals with monetary value as a representation of the asset, building. Right? Asset building is represented by $3,000,000.

The next idea is so simple, it may escape you. Suppose we represent the building in a different way--by ownership rights. What will be the total ownership rights in a $3,000,000 building? In dollar value, can the ownership rights be more than $3,000,000? No. Can it be less? No. Why? Because we are representing in monetary terms the same building in two different ways: the asset and the rights (liablities or equities) to the building. Two things equal to the same thing are equal to each other. The representation of the building in monetary terms as an asset of $3,000,000 is equal to the same monetary value of the rights to the building (liabilites and equities). Therefore, what is the total of the liabilites and equities in a $3,000,000 building?

DIRECTION: Turn to P.12 to check your answer and to further solve the mystery of the vocabulary we are using.



From P.8 or P.11. From P.11, your answer should be L+E=$3,000,000; or from P.8, you want to be sure of the meaning of the vocabulary used. CONGRATULATIONS! If you do not thoroughly understand, you'll save time by following some of these side excursions in learning.

Let's look at the terms we're using. First, assets: In an accounting sense, assets are things of value owned. To School District X, assets are things of value which it owns or controls. Thus, a school building of District X is an asset so long as it is owned or controlled by School District X. Easy? Fine. Try your hand at selecting some assets that are owned or controlled by School District X. Is the item an asset? Circle "Yes" "No" or "?"

(a) Bank account of the district. Yes No ?
(b) Property taxes that are due and receivable by the district. Yes No ?
(c) Certificate of deposit held by the district. Yes No ?

DIRECTION: Turn to P.14 to check your answers.

From P.14 or P.20. You are here to begin the discussion of LIABILITIES, the second term in the fundamental equation of ASSETS equal LIABILITIES plus EQUITIES (A=L+E).

A Liability is a debt owed. Thus, a note you owe to the bank as a result of purchasing an automobile gives the bank certain rights in your asset. While you control the automobile and have the use of it, the bank has rights until the debt is satisfied. The rights of others in assets are liabilities.

A school district has other debts, too. Only the exceptional school district does not have outstanding bonds as a long-term liability. See how well you can pick out the liabilities or debts of School District X. Is the item a liability? Circle your answer for each question below.

1. Bonds outstanding for a school building. Yes No ?
2. Withholdings from salaries of teachers held for a retirement fund. Yes No ?

DIRECTION: Check your answers on P.16.



From P.12. Check your answers to the questions on assets.

1. A bank account of a district represents a value either owned or controlled by the district. Therefore, it is an asset. Answer: Yes.
2. Property taxes that are due and receivable by the district represent a dollar value that belongs to the district. Therefore, taxes are assets when due or receivable. Answer: Yes.
3. A certificate of deposit is a written statement of a bank that the district has certain money on deposit. It is used as a device in some districts to invest idle school funds for short periods of time. A certificate of deposit is an asset. Answer: Yes.

DIRECTION: (a) If you had any errors or if you want more practice in selecting assets, turn to P.15. (b) The next discussion, Liabilities, begins on P.13.

From P.14. You are here because you want more practice in selecting assets. Are the following items assets of School District X? (Circle your answer.)

1. U.S. Government bonds held. Yes No ?
2. U.S. Treasury notes held. Yes No ?
3. Bonds. Yes No ?
4. Cash in the athletic fund. Yes No ?
5. A check received as a grant in aid from the state. Yes No ?
6. A school site that you plan to buy. Yes No ?
7. Land owned for future building. Yes No ?
8. Equipment in the school cafeteria. Yes No ?
9. Office supplies in the stockroom. Yes No ?
10. Wastepaper baskets used in the classroom. Yes No ?
11. The District's assessed valuation of $60,000,000. Yes No ?
12. A check given to Susan Sherman for teaching. Yes No ?
13. A sidewalk in the process of being constructed. Yes No ?
14. A gift of money received for a scholarship. Yes No ?
15. An invoice for which payment has been authorized. Yes No ?

DIRECTION: Turn to P.18 to check your answers.



From P.13. Check your answers to the questions on liabilities.

1. Bonds outstanding on school buildings represent a debt against the district and is a liability. Answer: Yes.

2. Withholdings from salaries of teachers for a retirement fund is an amount owed to the retirement fund and thus is a liability. (The cash held, however, is an asset.) Answer: Yes.

DIRECTION: (a) If either of your answers above was wrong or if you wish additional practice in selecting liabilities, turn to P.17. (b) If you are sure you know what liabilities are, turn to the discussion of EQUITIES, P.24.

From P.16. Is the item a liability, i.e., is the item a debt owed by the school district? Circle your answer (Yes, No, or ?).

1. A warrant payable to a contractor for a driveway constructed. Yes No ?
2. A teacher's contract for one year in the amount of $15,200. Yes No ?
3. An authorization in the budget to purchase new audio-visual equipment. Yes No ?
4. A law suit against the district for $500,000 damages because of an injury to a spectator at a football game. Yes No ?
5. Three month's salary earned by a teacher but with payment deferred until the summer months. Yes No ?
6. A short-term note of the district held by the bank. Yes No ?
7. An invoice for audio-visual equipment purchased. Yes No ?
8. A bookstore account. Yes No ?

DIRECTION: Check and analyze your answers on P.22.



From P.15. Check your answers to the practice questions in selecting assets.

1. U.S. Government bonds held by the district represent a relatively long-term obligation of the U.S. Government to the district. Legal restrictions limit the kinds of securities in which a school may invest; but, if School District X holds U.S. Government bonds, these bonds are an asset. Answer: Yes.
2. U.S. Treasury notes provide many districts a short-term type of security that draws interest and is an asset. Answer: Yes.
3. Bonds? Does the district own them or owe them? If they are owned by the district, they're assets; if they are owed by the district, they're liabilites. We don't know. Answer: ?.
4. Cash in the athletic fund is probably held in trust for the sports program. So long as it is controlled by the district, though, it is an asset. Answer: Yes.
5. A check received as a grant in aid represents money authorized and paid by a state to local school districts to support public education. Thus, the check is a value owned by the district and is an asset. Answer: Yes.

(Continued on P.19.)

From P.18 (Continued)

6. A school site that the district plans to buy will become an asset when it is purchased. Up to the point of purchase, the site is not an asset of the district. Answer: No.
7. Land owned for future buildings is an asset value of the district. Answer: Yes.
8. Equipment in the school cafeteria is an asset owned or controlled by the school district. There may be a possibility, of course, that such equipment is rented or leased. In this case, the equipment would belong to someone else and would not be an asset of the district. Leasing cafeteria equipment is a remote enough possibility to say here that cafeteria equipment is an asset of School District X. Answer: Yes.
9. Office supplies in the stockroom are owned or controlled by the district and are assets until they are used. Answer: Yes.
10. Wastepaper baskets used in the classrom are assets so long as they have value in use. Answer: Yes. (Continued on P.20)



From P. 19 (Continued)

11. Assessed valuation in the district in the amount of $60,000,000 is not an asset. Taxes, when they accumulate to the district because of a tax levy against the assessed valuation, are assets; but not the assessed valuation on which the taxes are based. Answer: No.
12. A check given to Susan Sherman for teaching is an asset of Susan's, but it is not an asset of the District. The district lost its control of this money when the check was given to Susan. Answer: No.
13. A sidewalk in the process of being constructed generally would be an asset of the district. This conclusion assumes, of course, that the sidewalk is being built by the district on school property. Answer: Yes.
14. A gift of money received for a scholarship is an asset. Although the money represents a trust, the gift is an asset so long as the district controls the money. Answer: Yes.
15. An invoice for a warrant which has been authorized for payment is not an asset. It represents a debt owed or liability, and not a value owned. Answer: No.

DIRECTION: You are now ready to discuss LIABILITIES. Turn to P.13.

From P.25. Your answer is: There is an error in Group 2. CORRECT. But let's make sure you know why.

a. An encumbrance is a claim or lien, real or potential. Thus, a purchase order sent to a vendor is an encumbrance against a school district's equity. Recognizing that a certain amount of equity will soon be lost or converted to a liability is done in school accounting through a Reserve for Encumbrance. It is an equity.
b. Surplus, as the name implies in school accounting, represents the balance of assets over liabilities (and certain other equities such as reserve for encumbrance). There is not an error here.
c. By elimination, the error is in listing prepaid insurance as an equity. Actually, a school district that has released money (asset) for the value of insurance protection (asset) has replaced one asset value for another. Therefore, prepaid insurance is an asset, not equity.

You have now completed your study of Assets, Liabilities, and Equity. You know that assets are things of value owned; liabilities are debts or obligations; and equity, the excess of assets over liabilities.

DIRECTION: Now you understand why A=L+E, so turn to P.30 to continue.



From P.17. Check your answers to questions on liabilities.

1. A warrant payable to a contractor for a driveway is a liability. A warrant is a written authorization for payment. Answer: Yes.
2. A teacher's contract for one year in the amount of $15,200 is not a liability until the teacher performs his part of the contract. Answer: No.
3. An authorization in the budget to purchase new audio-visual equipment may anticipate a future liability, but a liability is not incurred on the strength of an authorization to purchase. Answer: No.
4. A law suit for damages of $500,000 because of an injury to a spectator at a football game. If a judgment has been rendered against the school district, it would then be a liability. A suit is at most a contingent liability that will become real or evaporate in terms of a court decision. Answer: ?
5. Three months' salary earned by a teacher but with payment deferred until summer is a liability of the district. The teaching service has been completed and dollars are owed to the teacher. Answer: Yes.
6. The district owes the bank money on a short-term note. Such a note is a liability. Answer: Yes. (Continued P.23).

From P.22 (Continued).

7. An invoice for audio-visual equipment purchased is evidence of a liability if the equipment has been accepted by the district according to the terms of the purchase order. Answer: Yes.
8. A bookstore account is not descriptive enough to know if the account is a liability. Any portion of the account that represents an inventory of books, for example, would be an asset; but any portion that represents bills owed to vendors for books received would be a liability. Answer: ?.

DIRECTION: You are now ready to discuss Equities on P.24.



From P.16 or P.23. You are here to begin the discussion of EQUITIES. The meaning of the term "equity" is now the missing link in the equation, ASSETS equal LIABILITIES plus EQUITY.

In an arithmetic sense, the excess of assets over liabilities is equity. Thus, with a community college building (asset) worth $3,000,000 and with bonds outstanding (liability) of $2,800,000 the excess of A over L, is $200,000. (A, Building - L, Bonds = E, School District.).

Accountants use many different terms to refer to equity. For example, equity of Proctor's Hardware may be called "H. J. Proctor, Proprietor." In a corporation, equity may be known by such terms as "capital," "capital stock," "capital surplus," "earned surplus," or just "surplus". In a school district, equity may be known by such terms as "Surplus," "Reserve for Encumbrances," "Deferred Revenue," "Revolving Fund Equity," or just "Fund Balance."

One final idea about equity. When studying assets, you noted the short duration of some assets in a school district. Monies are received in revenues. These monies temporarily increase the equity of the school district. (Continued on P.25)

From P.24.(Continued). Thus, a check received for taxes collected increases the asset, cash or bank, and increases the equity in a like amount. Most of these revenues are expended soon after receipt. For instance, salaries are paid to teachers that decrease the asset, bank, and likewise decrease the equity. Such transactions are normal--revenues that are received (equity increased) to be expended wisely (equity decreased)--to fulfull the primary purpose of a school, the education of pupils.

The temporary increases or decreases through revenues and expenses are treated in this chapter only in relation to their direct effect on equity. Yet, these temporary changes in equity are important and you will learn a better way of handling them in the next chapter, "The Flow of Revenue and Expense."

Now check your understanding of terminology used to express equity. There is an obvious error in one of the groups of equity terms listed below. Note: These are NOT just school district equity terms, but single proprietor, partnership, and corporation terms, too. Find the error.

DIRECTION: Group 1. a. J. A. Smith Proprietor; b. J. A. Smith, Partner; c. Earned Surplus. (If there is an error in Group 1, turn to P.26)

Group 2. a. Reserve for Encumbrance; b. Surplus; c. Prepaid Insurance. (If there is an error in Group 2, turn to P.21).



From P.25. Your answer is: There is an error in Group 1. a. J. A. Smith, Proprietor; b. J. A. Smith Partner; c. Earned Surplus.

Consider each of these items. First, "a." The excess of assets owned by J. A. Smith over his liabilities would be his equity, known as "J. A. Smith, Proprietor." Thus "a" is correct.

If J. A. Smith has a partner, the excess of assets owned over liabilities owed by the partnership would be the partners' equity. J. A. Smith's portion of this partnership equity would be known as J. A. Smith, Partner. Thus "b" is correct.

A corporation obtains part of its equity as stockholders invest in capital stock. Part of its equity is derived from retained earnings which is known as "Earned Surplus." Thus, "c" is correct, too.

DIRECTION: There is no error in Group 1. Return to P.25 to follow the other direction.

From P.34. Your answer: 3. RIGHT. Arithmetically, if you add to an asset, you can maintain equality by adding to (1) liability, (2) equity, or (3) by subtracting from another asset. You have noticed the dual nature of an accounting transaction. You can't change the asset value unless you affect another asset, liability, or equity value. This truism is the foundation for double-entry bookkeeping. Let's look at some examples of the effect of changing values on the equation, A=L+E. .

School District X receives a grant in aid from the state of $100,000. What is the effect of this transaction on the equation? Asset +$100,000=Liability-0-+Equity $100,000. In otherwords, Asset Cash is increased (+) $100,000 and the School District's Equity is increased (+) $100,000.

You try the next one. Salary of $1,520 is paid to a teacher. What change does this make in the following equation?

| A | | L | | E |
|---|---|---|---|---|
| + $100,000 | = | 0 | + | $100,000 |
| - 1,520 | = | | - | 1,520 |
| + 98,480 | = | 0 | + | ? |

DIRECTION: Turn to P.29 to check your answer.



From P.30. You are here because one or more of your answers was "No" or you are in doubt.

Well, let's try each of the arithmetic operations suggested. Assume the following equation to test each arithmetic operation. $100,000 = $100,000

1. Add $25,000 to both sides.
2. Subtract $25,000 from both sides.
3. Multiply each side by 2.
4. Divide each side by 2.
5. Add $10,000 and subtract $10,000 from the left side.
6. Add $5,000 and subtract $5,000 from the right side.

Your answers: (1) $125,000=$125,000 (2) $75,000=$75,000 (3) $200,000=$200,000 (4) $50,000=$50,000 (5) $100,000=$100,000 (6) $100,000=100,000.

DIRECTION: Return to P.30 to select a better answer.

From P.27. Your answer should be:

Equity equals $98,480. GOOD. You decreased Asset, cash, by $1,520 and you decreased equity by $1,520. Thus, the new equation is: Asset, Cash, $98,480 = Liability, -0- + Equity, $98,480.

What change in the above equation will occur if you purchase supplies in the amount of $1,000 on open account (i.e., you charge them)?

| A | = | L | + | E |
|---|---|---|---|---|
| ? | = | ? | + | ? |

DIRECTION: Turn to P.35 to check your answer.



From P.21. You are here because you understand the meaning of the equation: A=L+E. Good!

Let's briefly test your basic arithmetic skills. Is it true that you can add the same amount to both sides of an equation without changing its equality? that you can likewise subtract the same amount from both sides? multiply or divide both sides by the same amount? Is it also true that you can add and subtract the same amount from ONE side of an equation without changing the equation's equality?

DIRECTION: (a) If your answer is "Yes" to each of the above questions, turn to P.34. (b) If any of your answers is "No" or any answer is in doubt, turn to P.28.

From P.33. Your equation should now look like this before the $500 purchase of equipment:

| | A | = | L | + | E |
|---|---|---|---|---|---|
| Cash | $97,480 | = | | | |
| Supplies | + 1,000 | = | | | |
| | $98,480 | = | -0- | + | $98,480 |

Changes:

| | | | | | |
|---|---|---|---|---|---|
| Cash | - 500 | | | | |
| Equipment | + 500 | | | | |
| | $98,480 | = | -0- | + | $98,480 |

Assets of $98,480 consist of: Cash $96,980; Supplies $1,000; and Equipment $500. In otherwords, you decreased Asset, Cash by $500 and increased another Asset, Equipment, by a like amount.

DIRECTION: Turn to P.38 to summarize.



From P.34. Your answer was some other number than 3 or "I don't know." Well, test your arithmetic knowledge of the accounting equation, A=L+E.
If you received cash (A) of $50,000, your assets have increased $50,000. What are the arithmetic possibilities? You have added $50,000 to the left side of the equation. Therefore,

1. Your liabilities could increase (add $50,000 to the right side).
2. Your equities could increase (add $50,000 to the right side).
3. Some other asset could have decreased (subtract $50,000 from the left side).

The answer is "3." Yet, if you selected another answer because you saw the possibility of combining the basic ways of maintaining equality, you're ahead of us.

DIRECTION: Return to P.34 to select a better answer.

From P.35. Your equation should now look like this:

| | A | = | | L | + | E |
|---|---|---|---|---|---|---|
| Cash | $98,480 | = | | -0- | + | $98,480 |
| Supplies | 1,000 | = | Vendor | $1,000 | + | -0- |
| Subtotal | $99,480 | = | | $1,000 | + | $98,480 |
| Cash | - 1,000 | = | Vendor | - 1,000 | | |
| Total | $98,480 | = | | -0- | + | $98,480 |

The warrant decreases your cash by $1,000 and decreases your liability by the same amount. Your assets now consist of Cash, $97,480 and Supplies, $1,000.

Suppose you purchase for cash $500 worth of equipment. What change will this make in your equation?

DIRECTION: Go to P.31.



From P.30. Your answers are all "Yes" and you are CORRECT.

You can add the same amount to both sides of an equation without changing its equality. Similarly, you can subtract, multiply, or divide the same number without changing the equality. You can also add AND subtract the same amount from the SAME side without changing equality.

Let's use this basic arithmetic in an accounting way. Suppose you add to an asset. How many kinds of changes can be made in the basic equation, A=L+E, to maintain equality of balance?

DIRECTION: a. If your answer is 3, go to P.27. b. Some other number than 3 or "I don't know"--go to P.32.

From P.29. Your solution should have been:

| | A | = | L | + | E |
|---|---|---|---|---|---|
| Cash | $98,480 | = | -0- | + | $98,480 |
| Supplies | +1,000 | = | +$1,000 | | |
| Total | $99,480 | = | $1,000 | + | $98,480 |

Asset, Supplies, is increased $1,000 for total assets of $99,480; Liability, Vendor, is increased $1,000; and Equity remains the same, $98,480. Simple?

Suppose a warrant for $1,000, an authorization drawn on the school treasurer to pay, is mailed to the vendor. What will be the change in the above equation?

DIRECTION: Go to P.33.



From P.39. Your answer to a. was (2). You may increase an asset, decrease another liability, or decrease an equity.

Your answer to b. was (2). You may decrease an asset, increase another liability or increase equity.

YOU ARE RIGHT! Since equity is on the right side of the equation with liabilities, what applies to liabilities also applies to equities. Summarize for review purposes what you have learned about increasing or decreasing assets, liabilities, or equity. You will have an opportunity to practice this knowledge as you analyze the effect of transactions on the fundamental equation.

DIRECTION: Go to P.37 to learn about the accountant's tool, the "T" account.

From P.36. Now to the accountant's tool, the account, to apply what you have learned. The "account," sometimes referred to as the "T" account, can be used to analyze transactions in the same way as the basic equation. The left side of the "T" account is called "debit" or dr.; the right side, "credit" or cr.

| A | L + E |
|---|---|
| DEBIT | CREDIT |

INCREASES in assets, liabilities, and equities are recorded on the same side of "T" accounts as they appear in the equation, A=L+E.

| A | L + E |
|---|---|
| Increases Debit (dr.) | Increases Credit (cr.) |

INCREASES in assets are recorded on the left side or debit side of an account; INCREASES in liabilities or equities are recorded on the right side or credit side.

In the transaction in which $1,000 worth of supplies were purchased on credit (increase asset $1,000 and increase liability $1,000), you would expect the asset increase to be recorded as: a. Debit? or b. Credit?

DIRECTION: If your answer is a. Debit, go to P.40; b. Credit, go to P.42.



From P.31. SUMMARY. The preceding five transactions illustrate the possible changes in the accounting equation that can occur when an asset is changed.

1. $100,000 grant in aid was received by School District X (P.27). Asset, Cash, was increased and Equity was increased by an equal amount.
2. $1,520 paid in salary (P.29). Asset, Cash, was decreased and Equity was decreased by a like amount.
3. $1,000 of supplies were purchased on credit (P.35). Asset (Supplies) was increased $1,000 and Liability, Vendor, was increased by a like amount.
4. $1,000 warrant was mailed (P.33). Asset, Cash, was decreased $1,000 and Liability, Vendor, was decreased by a like amount.
5. $500 in cash was spent to purchase equipment (P.31). Asset, Cash, was decreased while asset equipment was increased a like amount.

Thus, if you increase an asset, you may increase equity (No. 1, above) or increase a liability (No. 3) or decrease another asset (No. 5). If you decrease an asset, you may decrease an equity (No. 2) or decrease a liability (No. 4) or increase another asset (No. 5). (Continued P.39).

From P.38 (Continued). FINE. Let's see if you can generalize in the same way to account for the possible transactions that could occur when a liability is changed. Select the correct answers (1 or 2) to a and b.

a. To increase a liability (1) you may decrease an asset, decrease another liability, or decrease equity, (2) you may increase an asset, decrease another liability, or decrease equity.
b. To decrease a liability (1) you may increase an asset, increase another liability, or increase equity, (2) you may decrease an asset, increase another liability, or increase equity.

DIRECTION: (a) If your answer to a and b above are (1) in both instances, or (1) and (2) or (2) and (1)--turn to P.43. (b) If your answers to a and b above are (2) in both instances turn to P.36.



From P.37. Your answer: a. debit. EXCELLENT. You have the idea. Increases in assets are debits, increases in liabilities and equities are credits. Thus,

| Debit (dr.) | Credit (cr.) | |
|---|---|---|
| +A | +L | +E |

The accountant would have difficulty separating out all of the increases and decreases to assets, liabilities, and equities in one account. So instead, he uses many accounts, one for each asset, one for each liability, and one for each equity. Thus,

| Assets | | = Liabilities | | + Equities | |
|---|---|---|---|---|---|
| Cash | | Supplies | | Vendor | |
| dr. | cr. | dr. | cr. | dr. | cr. |
| + | - | + | - | - | + |

| School Dist. Equities | |
|---|---|
| dr. | cr. |
| - | + |

These "T" accounts are the tool used for sorting out the increases and decreases in assets, liabilities, and equities. Look at the Cash Account. If increases (+) in cash are recorded as debits (dr.), how would decreases (-) be recorded in the Cash Account?

DIRECTION: Turn to P.44 to check your answer.

From P.47. Your Trial Balance agrees with that on P.47. Splendid. Not only will you soon be able to understand the meaning of school accounts, you can even replace the school accountant! To fix these new learnings, additional transactions are listed below. At the right, the account debited and credited are recorded. Is each of the transactions analyzed correctly?

| Transaction | Debit | Credit |
|---|---|---|
| 1. The plumber in the Maintenance Dept. purchases on credit a supply of copper pipe to replenish his inventory. | Maintenance Supplies | Vendor |
| 2. The vendor in transaction "a" is paid. | Vendor | Bank |
| 3. A contractor is paid by check for constructing a new sidewalk. | Sidewalk | Bank |
| 4. Salary is paid to a teacher. | Surplus | Bank |
| 5. Office supplies are purchased from XYZ Office Supply Company. | Office Supplies | Vendor |

DIRECTION: (a) If you find an error in the analysis of any transaction, turn to P.51. (b) If all of the transactions are analyzed correctly, turn to P.49.



From P.37.

Your answer: b. credit.

Perhaps you are confused with the term buying "on credit" versus the accountant's use of the word. To an accountant, "debit" means left side of an account (or left side of the fundamental equation); "credit" means right side and nothing more. Asset balances appear on the left side of the "T" account. You just learned that increases in assets are recorded on the left (or debit) side.

DIRECTION: Return to P.37 to select a better answer.

From P.39. In one or both of your answers, you said: a.1. To increase a liability, you may decrease an asset, decrease another liability, or decrease an equity.
b.1. To decrease a liability, you may increase an asset, increase another liability, or increase an equity.

Examine the above answers from the standpoint of arithmetic: You may add the same amounts or subtract the same amounts from both sides of an equation without affecting equality. So if you add (increase) $100 to liabilities, you could (a) add (increase) $100 to an asset, (b) subtract (decrease) $100 from some other liability, or (c) subtract (decrease) equity. Examples: a. buy a $100 adding machine on credit. Your Liability, Vendor, is increased $100 and your Asset, Equipment, is increased $100. (+A $100 = +L $100). b. You borrow $100 from the bank to pay your debt. Your Liability (Note) has increased $100 but your Liability, Vendor, has decreased $100 (+L $100 and -L $100).
To decrease a Liability: By arithmetic, you know that you can decrease (subtract) the same amount from both sides of the equation. Therefore, if you decrease a liability you may decrease an asset the same amount or increase another liability or equity by the same amount.

DIRECTION: Return to P.39 to follow the correct direction.



From P.40. Your answer should have been "credit".

Consider the purchase of $1,000 worth of supplies on credit. Recorded in the accounts, assets Supplies is increased or debited $1,000 and liability, Vendor is increased or credited $1,000. Thus,

| (dr.) Assets | | = | Liabilities, Equities (cr.) | | | | |
|---|---|---|---|---|---|---|---|
| Cash | | Supplies | | Vendor | | Sch. Dist. Equities | |
| dr. | cr. | dr. | cr. | dr. | cr. | dr. | cr. |
| + | - | + | - | - | + | - | + |
| | | $1,000 | | | $1,000 | | |

It's your turn to record some transactions for School District X. Use your own paper to draw the "T" accounts on the next page--except make them larger. We'll retain the larger "T" and label accounts with dr., cr., and +, - to help you relate to your fundamental equation, A = L + E. (Continued P.45).

From P.44 (Continued).

(dr.) Assets = Liabilities and Equities

| Cash | | Supplies | | Building | | Equipment | |
|---|---|---|---|---|---|---|---|
| dr | cr | dr | cr | dr | cr | dr | cr |
| + | - | + | - | + | - | + | - |

| Vendor C | | Contractor | | Bonds Outstanding | |
|---|---|---|---|---|---|
| dr | cr | dr | cr | dr | cr |
| - | + | - | + | - | + |

| Surplus | |
|---|---|
| dr | cr |
| - | + |

(Continued P.46)



From P.45. Record the following transactions as debits and credits in the appropriate "T" accounts of School District X. These transactions are simplified for this illustration. Yet, the principles are the same.

a. A check is received for taxes by School District X in the amount of $150,000.
b. School District Y sends your District $200 tuition for one of its students attending your school.
c. You purchased on credit audio-visual equipment from Vendor C in the amount of $1,250.
d. You receive $2,800,000 in cash from the sale of bonds at par for a new school building.
e. You purchase $600 worth of supplies on credit from Vendor C.
f. You pay the contractor $2,500,000 of a $3,000,000 contract for a community college building just completed.

Are your debits and credits equal? What are your balances?

DIRECTION: Turn to P.47 to check your account balances.

From P.46. You are here to check your account balances. A listing of the balances of accounts is known as a trial balance. Take off a trial balance (use your own paper) by subtracting credits from debits in asset accounts and debits from credits in liability and equity account. Compare your trial balance with the following:

School District X, Trial Balance, (date)

| | Debit | Credit |
|---|---|---|
| Cash | $ 450,200 | |
| Supplies | 600 | |
| Equipment | 1,250 | |
| Building | 3,000,000 | |
| Vendor C | | $ 1,850 |
| Contractor | | 500,000 |
| Bonds Outstanding | | 2,800,000 |
| Surplus | | 150,200 |
| Totals | $3,452,050 | $3,452,050 |

DIRECTION: (a) If your trial balance agrees with the above, turn to P.41. (b) If your trial balance is different from the above, turn to P.50.



From P.49. Your answer: All transactions are correct. GOOD. Check the following transaction. Is each of the transactions analyzed correctly?

| Transactions | Debit | Credit |
|---|---|---|
| 1. Bonds are sold for cash. | (+A) Bank | (+L) Bonds Outstanding |
| 2. Interest is paid on bonds. | (-E) Surplus | (-A) Bank |
| 3. A new school building is paid for. | (+A) Building | (-A) Bank |
| 4. Office supplies are used from the stockroom. | (+A) Office Supplies | (+E) Surplus |
| 5. Tuition for a student is received from another district. | (+A) Bank | (+E) Surplus |

DIRECTION: Turn to P.55 to check your answer.

From P.41. GOOD. All answers were analyzed correctly. Check the following transactions. Is each analyzed correctly?

| Transactions | Debit | Credit |
|---|---|---|
| 1. A check is received from the county treasurer for taxes collected. | (+A) Bank | (+E) Surplus |
| 2. Students' activity fees are collected. | (+A) Bank | (+E) Surplus |
| 3. The superintendent of schools receives his salary check. | (-E) Surplus | (-A) Bank |
| 4. Cash from a bond fund is used to equip the new building. | (+A) Equipment | (-A) Bank |
| 5. Postage for a mailing of letters to parents is paid. | (-E) Surplus | (-A) Bank |

DIRECTION: (a) If each of the transactions is analyzed correctly, turn to P.48. (b) If you spotted an error in any of the transactions, turn to P.53.



From P.47. Your trial balance is different from that given. Why? Sometimes foolish arithmetic errors. Recheck your arithmetic for the account balances or re-add your totals. (2) Perhaps you recorded the total debits and total credits in each account rather than taking the balance of the account. (3) You may have analyzed one or more of the transactions incorrectly. Check your entries and correct your accounts to agree with the following:

a. Dr. Cash $150,000; Cr. Surplus $150,000. Taxes represent an increase in an asset and an increase in equity.
b. Dr. Cash $200; Cr. Surplus $200. Asset Cash has been increased and so has equity, Surplus.
c. Dr. Equipment $1,250; Cr. Vendor C $1,250. Asset, Equipment, is increased and liability, Bonds Outstanding, is increased.
d. Dr. Cash $2,800,000; Cr. Bonds Outstanding $2,800,000. Asset, Cash, is increased and liability, Bonds Outstanding, is increased.
e. Dr. Supplies $600; Cr. Vendor C $600. Asset, Supplies, has been increased $600 and liability, Vendor C, has been increased $600.
f. Watch this one: Your Asset, Building, has been increased $3,000,000; your Asset, Cash, has been decreased $2,500,000; and your Liability, Contractor, has been increased $500,000.

DIRECTION: Return to P.47 to correct your trial balance.

From P.41. Your answer: There is an error in analyzing the debits or credits of transactions on P.41. Let's examine each of the transactions.

1. Dr. (A) Maintenance Supply; Cr. (L) Vendor. The copper pipe is a value. An Asset is increased or debited, and in this case, we call the asset "Maintenance Supply." A liability is also increased (or credited) and is owed the vendor from whom the pipe is purchased. The entry is correct.
2. Dr. (L) Vendor; Cr. (A) Bank. A debt is reduced. The liability, Vendor, is decreased or debited. Asset (Bank) is also decreased or credited, the entry is correct.
3. Dr. (A) Sidewalk; Cr. (A) Bank. The contractor has applied labor to combine sand, cement, and gravel to construct a new value for the district, Sidewalk. Asset, Sidewalk, is increased (debited) by the amount paid to the contractor. Asset, Bank, is decreased (credited) in a like amount. There is no error here.
4. Dr. (E) Surplus; Cr. (A) Bank. Teaching is a value to the district and thus an asset. Yet, the asset value to School District X is released immediately to pupils. School District X does no longer own this value any more than it owns the pupils it teaches. Thus, the transaction represent a decrease (debit) to (E) Surplus and a decrease (credit) to (A) Bank. The transaction is correct. (Continued P.52.)



From P.51 (continued).

5. Dr. (A) Office Supplies; Cr. (L) Vendor. The value of the inventory supplies has increased (debited) (A), Office Supplies. The liability of the Vendor, XYZ Office Supply Company, has increased (credited). The transaction is recorded correctly.

DIRECTION: Each of the transactions was correctly analyzed. Return to P.41 to follow the other direction.

From P.49. You found an error or errors in the analysis of transactions. Let's see where the error or errors may be.

1. Dr. (A) Bank; Cr. (E) Surplus. The money received represents an increase (debit) in the asset cash or bank. Taxes also represent a surplus increase (credit) or added ownership rights to carry on the function of a school--to educate girls and boys. The entry is correct.
2. Dr. (A) Bank; Cr. (E) Surplus. Asset Bank is increased (debited) since the money so collected is controlled by the district. The equity of the district is also increased (credited) to carry on the activities for which the money is collected. Although the money is held in trust for student activities, student activities are still controlled by the district. This explains why the transaction is a credit to equity and not to some sort of liability.
3. Dr. (E) Surplus; Cr. (A) Bank. The transaction is correct. As with teacher's salaries, the overhead of a superintendent's salary has been applied to the education of pupils. The value is no longer a part of the district. Therefore, (E) Surplus is decreased (debited) and (A) Bank is decreased (credited). (Continued P.54.)



From P.53 (continued). The foregoing analysis of No. 3 is substantially correct. It fails to consider, however, that if the superintendent is spending his time in building buildings the value of his salary then is a cost (or asset) of the building! But let's overlook this complication for now.
4. Dr. (A) Equipment; Cr. (A) Bank. The value of the Bond Fund, Cash is replaced by an equal value of Equipment. Therefore, (A) Equipment is increased (debited); (A) Bank is decreased (credited). The transaction is correct.
5. Dr. (E) Surplus; Cr. (A) Bank. The value of the stamps is an asset--but the asset is "used-up" immediately. Therefore, the value is lost representing a decrease (debit) in (E) Surplus; and a decrease (credit) in (A) Bank. The transaction is correct.

Each of the transactions was correctly analyzed.

DIRECTION: Return to P.49 to follow the other instruction.

From P.48. Did you spot an error in No. 4? FINE. As office supplies are used, Surplus (E) decreases and should be debited. The value of the asset, Office Supplies, is also decreased or credited. Below is an analysis of the others:

1. Dr. (A) Bank; Cr. (L) Bonds Outstanding. Asset, Bank, is increased (debited) and liability, Bonds Outstanding, is increased (credited) in like amount. The entry is correct.
2. Dr. (E) Surplus; Cr. (A) Bank. Interest for the use of money is an expense or decrease (debit) to equity (Surplus). Payment of cash is a decrease (credit) of asset, Bank. The entry is correct.
3. Dr. (A) Building; Cr. (A) Bank. In this transaction, you have replaced one asset for another. (A) Building is increased (debited) for (A) Bank which is decreased (credited). The entry is correct.
5. Dr. (A) Bank; Cr. (E) Surplus. An asset value has flowed into the district, cash for tuition represented by an increase (debit) to Bank, Equity of the District has also increased (credit) Surplus.

DIRECTION: You are now ready to take your test over Chapter 1. Turn to P.56.



## TEST FOR CHAPTER 1
### Basic Concepts for The Meaning of School Accounts

INSTRUCTIONS: Test yourself on the following information you should now know from your study of Chapter 1. When you have completed your answers, check their accuracy on P.60. References to review pages for any you miss are also contained on P.60.

1. A = L + .....

2. Which of the following are NOT assets?

   a. Land owned for future development
   b. Custodial supplies held in the stockroom
   c. Wastepaper containers used by custodians
   d. An authorization of the board to accept bids for a new heating unit
   e. A bill to be paid

3. Which of the following are NOT liabilities?

   a. A warrant payable for audio-visual equipment
   b. Maintenance salaries earned but not paid
   c. Custodial supplies used
   d. Amount owed due to deductions of taxes from salary checks
   e. An inventory of books

4. Which of the following titles of accounts may represent equity of School District X?

   a. Capital Stock Outstanding
   b. Surplus
   c. Earned Surplus
   d. Reserve for Encumbrance
   e. Capital Surplus



5. The equality of the fundamental bookkeeping equation is maintained if the same amount:

   a. is added to assets as is added to some other asset. (Yes or No)
   b. is added to assets as is added to liabilities. (Yes or No)
   c. is subtracted from assets as is subtracted from equities. (Yes or No)

6. If you increased an asset, would equity be:

   a. increased?
   b. decreased?

7. If you decrease a liability, would an asset be:

   a. increased?
   b. decreased?

8. The left side of an account is called:

   a. debit
   b. credit

9. Increases in equity are recorded as

   a. Dr.
   b. Cr.

10. If School District Y sends School District X $200 owed for tuition, what will be the effect on the books of School District Y?

    Asset, Bank, will be (a) dr. or cr. and liability, School District X, will be (b) dr. or cr.

DIRECTION: Check your answers on P.60 and review the pages indicated for any answers you had incorrect.



From P.59.

ANSWER SHEET AND REVIEW PAGES
FOR CHAPTER 1 TEST

| QUESTION NO. | ANSWER | REVIEW PAGE(S) |
|---|---|---|
| 1. | E | 5 |
| 2. | d, e | 15, 18-20 |
| 3. | c, e | 17, 22-23 |
| 4. | b, d | 21, 24, 25, 26 |
| 5. a. | No | 27 |
| b. | Yes | 27 |
| c. | Yes | 27 |
| 6. | a | 27 |
| 7. | b | 39 |
| 8. | a | 37 |
| 9. | b | 36 |
| 10.a. | cr. | 46 |
| b. | dr. | 46 |

## The Flow of Revenue and Expense

Accounting for "The Flow of Revenue and Expense" differs from that discussed in the previous chapter which we label "Position Accounting." Consider the two kinds of accounting, position and flow. Reflect for a moment on the water supply of a large city such as an artificial basin of water caused by placing a dam in a stream to form a lake. The available supply of water for the city is dependent upon: 1. the amount of water in the basin (position), 2. the flow of water into, and 3. the flow of water out of the basin.

If the volume of water flowing out of the basin were greater than the volume of water flowing in, you would know that the volume of available water in the basin (position) had decreased. But if the volume flowing in were greater than the volume flowing out, would you expect the position of available water in the basin to be a. increased or b. decreased?

DIRECTION: If your answer is a. increased, go to P.65; or b. decreased, go to P.69.



From P.68. Your answer: b. credits. EXCELLENT!

Revenue account balances are credits because they reflect an increase in equity. Now, suppose a series of accounts is classified according to expenses incurred during a period. Each transaction reflects a decrease in equity. The sum of the transactions recorded in expense accounts during a school year will reflect the flow of values out of the district that are applied (we assume) to the educational program. Typical expenses of a school district are: 1. Salaries of Superintendent and Assistants, 2. Salaries of Teachers, 3. Teaching Supplies, 4. Fuel and Utilities, and 5. Salaries of Custodians.

Because expense transactions reflect a decrease in equity, would you expect most of the entries and all of the balances of expense accounts to be a. debits or b. credits?

DIRECTION: If your answer is a. debits, go to P.71; if b. credits, go to P.76.

From P.65. POSITION ACCOUNTING. The oversimplification of accounting transactions in Chapter 1 was due primarily to "position accounting." After each transaction you could determine the position of assets, liabilities, and equities. Each transaction shifted or changed the position of A=L+E. A statement of position at any given time is known as a balance sheet. A balance sheet is a report of assets, liabilities, and equities at some point in time.

An example of a simple balance sheet for School District X prepared from the trial balance of Chapter 1 is displayed below (P.64). Note that assets equal liabilities plus equities. Remember that the balance sheet is a statement of A=L+E at a given point in time.

Suppose that the School District X completes 100 financial transactions: How many DIFFERENT balance sheets of this district would it be possible to make a., 2; b., 101?

DIRECTION: If your answer is: a., go to P.70; b., go to P.67.



From P.63.

School District X
Balance Sheet as of (Current Date)

| | | |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash in Bank | $ 450,200 | |
| Supplies | 600 | $ 450,800 |
| Fixed Assets: | | |
| Equipment | 1,250 | |
| Building | 3,000,000 | 3,001,250 |
| Total Assets | | $3,452,050 |
| | | |
| Liabilities and Equities | | |
| Current Liabilities: | | |
| Vendor C | $ 1,850 | |
| Contractor | 500,000 | $ 501,850 |
| Long-Term Liability: | | |
| Bonds Outstanding | | 2,800,000 |
| Total Liabilities | | $3,301,850 |
| School District Equity: | | |
| Surplus | | 150,200 |
| Total Liabilities and Equity | | $3,452,050 |

DIRECTION: Return to P.63.

From P.61. Your answer: a. to be increased. YOU'RE RIGHT. If you put more water into the basin than you take out, the amount remaining in the basin increases. The amount of water in the basin at a given time is the "position" of the supply; the water flowing into and out, the "flow."

Financial values of a school district have the same characteristics as a city's water supply: position and flow. In Chapter 1, we considered primarily position. Now we are concerned with both position and flow. Well, let's get on with it. Follow the direction below that applies to you.

DIRECTION: a. If you have studied accounting previously, turn to P.108 to take the test for Chapter 2. The key to the answers will take you to appropriate discussion to help you with any answers you miss. b. If you believe you can profit by continuing, turn to P.63.



From P.68. Your answer: a. debits. Examine your answer in relation to the fundamental equation: A=L+E, and remember how this equation relates to a T account in the following:

| Debit | Credit |
|---|---|
| +A | +L +E |

Increases in assets appear on the left or debit and increases in liabilities and equities appear on the right or credit. Remember, revenues reflect an increase in equity.

DIRECTION: Return to P.68 to re-analyze the question and follow the other direction.

From P.63. Your answer: b. 101. RIGHT! One at the beginning and one after each of 100 transactions. Each change in the values of assets, liabilities, or equities gives the school district a new position.

In practice, preparing a new balance sheet after each transaction would be foolish. One transaction does not usually provide significant shifts in position of assets, liabilities, or equities. Usually a school district will provide a balance sheet only at the beginning and at the end of a fiscal (or accounting) period.

A balance sheet, though, does not tell you from where the values come and to where they go--only what the values are at a particular time. In otherwords, a balance sheet does not measure the flow of values into or out of the district. This flow of values into and out of the education program is called "operating values." Thus, revenues primarily in taxes or grants flow into the district and expenses of providing an educational program such as salaries or supplies cause values to flow out from operating an educational program.

Remember that the flow of such values into the district usually resulted in an increase in assets and in equity. Thus, (a) property taxes of $100,000 received by a district is recorded as an increase or debit to asset, Bank, and an increase (credit) to equity, Surplus. Likewise, (b) a payment of salary of $25,000...(Continued P.68)



From P.67 (continued)...to faculty is a decrease (credit) to asset, Bank, and a corresponding decrease (debit) to equity, Surplus, of $25,000. In T accounts, the two transactions were recorded in Chapter 1:

A = L + E

| Bank | |
|---|---|
| (a) $100,000 | (b) $25,000 |

| Surplus | |
|---|---|
| (b) $25,000 | (a) $100,000 |

Obviously, a school district will have hundreds of revenue transactions during a school year (increase or credit) to equity or surplus. If the equity portion of these transactions is classified in a series of revenue accounts during a given period of time, the flow of different kinds of revenue into the district will be measured. Some typical revenue accounts of a school district are: 1. Current Property Taxes; 2. Tuition Receipts; 3. State Grant of School Aid; 4. Rental of Property.

Because a revenue transaction reflects an increase in equity, would you expect most of the entries and all of the balances of revenue accounts to be a. debits or b. credits?

DIRECTION: If your answer is a. debits, go to P.66; if b. credits, go to P.62.

From P.61. Your answer: b. decreased. Well now, think about it. You say that if more water goes in than is taken out, the water remaining will decrease? You probably were not reading carefully enough.

Just to prove it to yourself, take two glases: glass No. 1 (full of water) and call it "input"; No. 2, (empty) amount of "position." Your sink drain is your "output." Now pour the full "input" glass into "position" glass. But pour only one half of the glass of water from "position" into "output." The demonstration is the same as the conditions of the problem. You have more water flowing in than flowing out. Has the water in "position" increased or decreased? Of course you see it now.

DIRECTION: Return to P.61 to follow the other direction.



From P.61. Your answer: a. Two, one at the beginning and one at the end. Whoops! You misread the question.

In practice, a balance sheet is often prepared at the beginning and at the end of a fiscal period. But the question asks, how many DIFFERENT balance sheets would it be possible to make? Before you answer this, reflect on the analogy of the water supply for City X. How frequently could you report a different volume of water in the basin? At any time that either water flowed in or water flowed out. In otherwords, once every second or minute--if you wanted to. And each measure would be different! Now back to a school's financial values. Remember, every financial transaction changes in some way the assets, liabilities, or equities.

DIRECTION: Return to P.63 to follow the other direction.

From P.62. Your answer: a. debits. FINE! By classifying the expenses in accounts for a given period of time, you expect each expense account balance to be a debit. Such debit balances reflect the flow of values out during a given period of time.

Now you know what operating accounts are: You know that revenue accounts reflect increases in equity and as such are recorded as credits. You know, too, that expense accounts reflect decreases in equity and as such are recorded as debits. Let's put this knowledge into practice to see how revenue and expense transactions are recorded in T accounts.

1. $50,000 in current property taxes is received from the county treasurer.

| Bank | | Current Property Taxes | |
|---|---|---|---|
| (a) $50,000 | | | (a) $50,000 |

Asset, Bank, is increased (debited) by $50,000; and revenue, Current Property Taxes, is increased (credited) $50,000. (Continued P.72)



From P.71 (continued).

2. Salary checks totaling $17,500 are given to the instructional staff.

| Bank | | Salaries of Teachers | Current Property Taxes | |
|---|---|---|---|---|
| (a) $50,000 | (b) $17,500 | (b) $17,500 | | (a) $50,000 |

Asset, Bank, is decreased (credited) $17,500; and expense is increased or debited (a decrease in equity) by the same amount.

The revenue transaction reflects the flow of value in; the expense transaction reflects the flow out. Suppose a balance sheet were made at this point. What would be the change in surplus caused by these two transactions?

DIRECTION: If your answer is: a. Surplus is increased by $32,500, go to P.81; b. decreased by $32,500, go to P.84; or c. "I don't get it!" go to P.77.

From P.83. Your answer: My trial balance totals do not equal $950,000.

Here are the accounts with each transcation posted and lettered. Follow through each transaction and check your own entries.

**Bank**

| | | | |
|---|---|---|---|
| (a) | $100,000 | (c) | $ 850 |
| (b) | 500,000 | (f) | 1,250 |
| (d) | 50,000 | (g) | 1,000 |
| (e) | 300,000 | | |

**Current Property Taxes**

| | | | |
|---|---|---|---|
| | | (a) | $100,000 |
| | | (d) | 50,000 |

**School Aid**

| | | | |
|---|---|---|---|
| | | (b) | $500,000 |
| | | (e) | 300,000 |

**Superintendent's Salary**

| | |
|---|---|
| (f) $1,250 | |

**Electricity Used**

| | |
|---|---|
| (c) $ 850 | |

**Boiler Repair**

| | |
|---|---|
| (g) $1,000 | |

(Continued, P.74)



From P.73 (continued). The trial balance from the accounts on P.73 should be:

Trial Balance

Date (current)

| Account | Debit | Credit |
|---|---|---|
| Bank | $946,900 | |
| Current Property Taxes | | $150,000 |
| School Aid | | 800,000 |
| Superintendent's Salary | 1,250 | |
| Electricity Used | 850 | |
| Boiler Repair | 1,000 | |
| Totals | $950,000 | $950,000 |

DIRECTION: Correct your entries and trial balance and then go to P.79.

From P.86. Your answer: b. a net profit or loss from operations for the fiscal period.

If the school district were a private enterprise, you would be right. The purpose of a private enterprise is to earn a profit, i.e., to have revenues exceed expenses. In public schools, however, the purpose is to educate pupils, i.e., to obtain sufficient revenues and to expend these resources wisely in the educational program.

DIRECTION: Return to P.86 to select the other answer.



From P.62. Your answer: b. credits.

Increases in equities such as revenues are credits. Perhaps you're confused that an increase in an expense reflects a decrease (or debit) in equity.

DIRECTION: Return to P.62 to follow the other direction.

From P.72. Your answer: c. "I don't get it." Well, look at the two transactions in terms of the fundamental equation as you did in Chapter 1.

| A | | = | L + E | |
|---|---|---|---|---|
| + Bank - | | | - Surplus + | |
| (a) $50,000 | (b) $17,500 | | (b) $17,500 | (a) $50,000 |

In transaction (a), the district received $50,000 in current property taxes. This is a debit (increase) to asset, Bank, and a credit (increase) to a surplus account, called "Current Property Taxes." In (b), salary checks of $17,500 are paid to teachers, a decrease (debit) to a surplus account called "Salaries of Teachers" and a decrease (credit) to Bank. Look at the Surplus account. What is the net effect? An increase of $32,500. The only thing different in the present example from similar problems in Chapter 1 is: The equity values are not recorded directly in Surplus as they were. Rather, they are recorded first in operating accounts, either revenue or expense.

DIRECTION: Return to P.72 to follow one of the other directions.



From P.80. Your answer: There is an error in Group 1. Let's analyze the transactions.

a. Cash received for rent increases (or is debited to) the asset, Bank. The rent is a revenue that is increased or credited. The transaction is correct.

b. Rent paid out is a decrease or credit to asset, Bank. It is also an increase in expense which in effect decreases equity. The transaction is correct.

c. Tuition represented by cash is an increase in asset, Bank. It is also a revenue that increases equity. Thus, an increase to equity (+R) is a credit. The transaction is correct.

d. A receipt of $250,000 cash as a grant from the state is an increase, or debit, to asset, Bank. It is also an increase in revenue (+R) or an increase (credit) in equity. The transaction is correct.

DIRECTION: Since all of the transactions in Group 1 are correct, return to P.80 to find the error in Group 2.

From P.74 or P.83. Your answer: Totals of debits and credits are equal--$950,000. GOOD! Fix this new knowledge now. The following operating transactions are grouped and analyzed. One group contains an error. Find it. (In addition to (A), (L), and (E), (Ex) for expense and (R) for revenue are included.)

| Group 1: Transactions | Debit | Credit |
|---|---|---|
| a. Rent for use of the auditorium of $100 is received | (+A) Bank | (+R) Rent Rec'd. |
| b. Rent of $50 for use of a bus is paid | (+Ex) Bus Rental | (-A) Bank |
| c. School District Y sends a check for tuition | (+A) Bank | (+R) Tuition Received |
| d. A remittance of $250,000 is received as a grant in aid from the state | (+A) Bank | (+R) School Aid |

(Continued P.80)



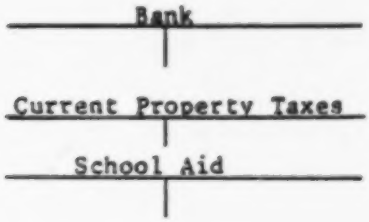
From P.79 (continued).

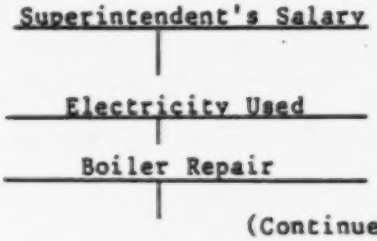
| Group 2: Transactions | Debit | Credit |
|---|---|---|
| a. Salaries of custodians are paid $5,500 | (+Ex) Custodian Salaries | (-A) Bank |
| b. A bill for $60 worth of foodstuffs used in homemaking classes is paid | (+Ex) Supplies | (-A) Bank |
| c. A bill of $720 for an additional calculator purchased is paid | (+Ex) Supplies | (-A) Bank |
| d. Salaries of teachers, $97,000 paid | (+Ex) Teachers' Salaries | (-A) Bank |

DIRECTION: If an error is in Group 1, go to P.78; in Group 2, P.85.

From P.72. Your answer: a. position of surplus is increased by $32,500. YOU'RE RIGHT! The $50,000 in property taxes reflects an increase (credit) to Surplus; and $17,500 in salaries to teachers reflects a decrease (debit) to Surplus. The net effect is a $32,500 increase in Surplus.

It's time to see how well you can analyze in T accounts various revenue and expense transactions. To emphasize operating accounts, but one asset, Bank, will be used and no liability accounts are used. On your own paper, draw up the following T accounts in which to record transactions found below.




(Continued on P.82).



From P.81 (continued). Record the following transactions in T accounts.

a. $100,000 is received for current property taxes collected.
b. A $500,000 partial payment of school aid is received from the state.
c. The Electric Company is paid $850 for a bill rendered.
d. $50,000 in current property taxes is received.
e. A partial payment of school aid in the amount of $300,000 is received.
f. The Superintendent receives his weekly salary of $1,250 (to simplify the transaction, taxes and similar deductions are to be disregarded in recording this).
g. A bill for $1,000 was received and paid for repair of a boiler in the heating plant.

DIRECTION: After you have recorded your entries in T accounts, make a trial balance, i.e., list each account balance to prove the equality of debits and credits. Use a form as the one on P.83. (Continued, P.83.)

From P.82 (continued).

Trial Balance

Date (current)

| Account | Balance of Accounts | |
|---|---|---|
| | Debit | Credit |
| Bank | | |
| Current Property Taxes | | |
| School Aid | | |
| Superintendent's Salary | | |
| Electricity Used | | |
| Boiler Repair | | |
| Totals | _____ | _____ |

DIRECTION: After completing your trial balance, a. Totals of debit and credit balances are equal--$950,000 each, go to P.79; b. The debits and credits are not equal, or the total is other than $950,000, go to P.73.



From P.72. Your answer: b. surplus is decreased by $32,500.

Let's look at the two transactions again: $50,000 of revenue in current property taxes increases equity and $17,500 of expenses in salaries of teachers decreases equity. So (+E) $50,000 and (-E) $17,500 gives a net (+E) $32,500.

DIRECTION: Return to P.72 to select a different answer.

From P.80. Your answer: There is an error in Group 2. YOU'RE RIGHT! But, let's see where the error is.

a. Salaries of custodians are paid. Salaries are an increase in expense, Custodian Salaries, and a decrease in asset, Bank. This entry is correct.

b. The foodstuffs purchased for a homemaking class are an expense of instruction, an increase in expense, Supplies. The decrease in asset, Bank, is a credit. The transaction is correct.

c. A bill for an additional calculator is paid. The decrease or credit in asset, Bank, is correct. An addition to equipment, though, is an additional asset--not an expense. Here's your error!

d. A payment of salaries to teachers decreases (credit) asset, Bank; and increases (debit) expense, Teachers' Salaries. The entry is correct.

Good, you're ready to move on to another important idea. (Continued P.86)



From P.85 (continued). The term "fiscal period" has been used several times and defined as an "accounting period of time." In public school accounting, the usual fiscal period is one year, frequently from July 1 to June 30.

During a fiscal period, operating data are collected in revenue and expense accounts. The revenue accounts accumulate information about all taxes, grants, and other values flowing into the district. The expense accounts reflect the values flowing out or applied to the education of pupils. The net effect of the revenues received and the expenses incurred during a fiscal period results in which of the following, "a" or "b"?

DIRECTION: If your answer is a. an increase or a decrease (deficit) in the surplus of the district for the fiscal period, go to P.90; b. a net profit or loss from operations for the fiscal period, go to P.75.

From P.92. Your answer: c. "I don't get it." This problem is similar to the problem related to the volume of water in the water supply basin of a city *and the flow of water in and out.*

DIRECTION: Return to the first page of Chapter 2 to re-read that discussion and then to P.92 to follow through the discussion again and select one of the other alternatives.



From P.89. Your answer: a. debit Surplus, $600,000; credit Property Taxes, $600,000.

Well, let's see. Here are the T accounts of Property Taxes and Surplus before closing and transferring:

| Property Taxes | | Surplus | |
|---|---|---|---|
| | (Bal) $600,000 | | (Bal) $150,200 |

If you debit surplus $600,000, the balance will be a debit of $449,800 (a deficit). If you credit Property Taxes $600,000, you have a credit balance of $1,200,000. You want to close the account. Instead you've doubled it"

DIRECTION: Return to P.89 to follow the other direction.

From P.105. You are here because you have correctly completed your operating statement of School District X for the fiscal period of July 1, through June 30; and the statement of position as of June 30. One step remains in your accounting cycle: to close and to transfer the operating accounts to Surplus, for they have now completed their function, i.e., collecting the revenues and expenses of the fiscal period.

There's no mystery about this. Look at your supplies account. They're now all used and their value has left the district. Transfer the value to Surplus by debiting Surplus $5,600 and crediting Supplies for $5,600. After the entry, Supplies account is in balance and that amount transferred to Surplus.

| Supplies | |
|---|---|
| (Bal) $5,600 | (Close) $5,600 |

| Surplus | |
|---|---|
| (Supplies) $5,600 | (Bal) $150,200 |

What is the entry for closing the revenue account, Property Taxes, to Surplus?

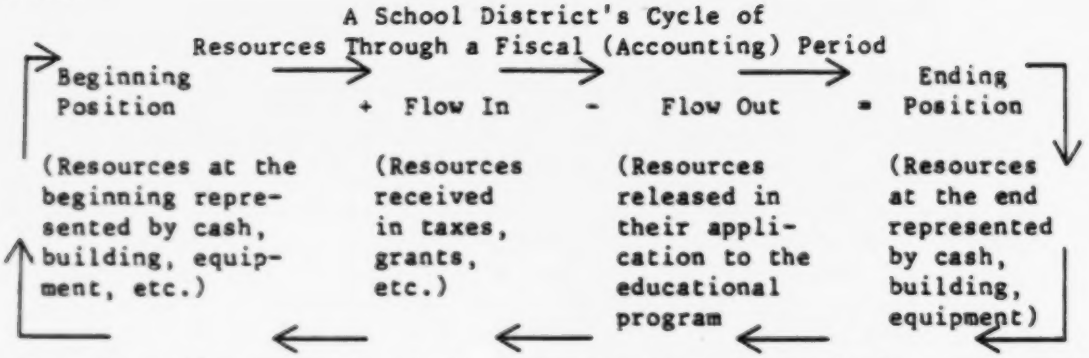
DIRECTION: If your answer is a. Debit Surplus, $600,000; Credit Property Taxes, $600,000, then go to P.88. If your answer is b. Debit Property Taxes, $600,000; Credit Surplus, $600,000, then go to P.106.



From P.86. Your answer: a. an increase or decrease in the surplus of the district for the fiscal period. CORRECT! Public schools do not operate to earn a profit. They are in the business of educating pupils. The data collection about revenues and expenses provides information about the kinds and amounts of revenues flowing into the district and the way they are applied as expenses in the educational program in a given fiscal period.

Our scheme of data collection is almost complete: At the beginning of a fiscal period, the resources represented by all assets are available for partial or total application to the current educational program. Thus, a school building and its equipment are applied in part to the current educational program. To join the beginning resources, such current receipts as taxes, state aid or other grants, or borrowing are flowing into the district. Together, these beginning and current resources represent the total wherewithal of the district to carry on an educational program during that fiscal period. From the available resources, resources flow out (represented by expenses) to implement the educational plan. Resources are used, but not all resources: some values are left in building, equipment, and supplies at the end of the period--ready to start a new fiscal period. Schematically, this process may be visualized as on the next page. (Continued, P.91)

From P.90.


A School District's Cycle of
Resources Through a Fiscal (Accounting) Period
Beginning Position
+ Flow In
- Flow Out
= Ending Position
(Resources at the beginning represented by cash, building, equipment, etc.)
(Resources received in taxes, grants, etc.)
(Resources released in their application to the educational program
(Resources at the end represented by cash, building, equipment)

Note that the ending position of the cycle becomes the beginning position for the next cycle: the next fiscal period.

School accounts, if they are to provide valid data, must measure the volume of resources at the beginning of a fiscal period, the volume of flow in and flow out, and the remaining volume of resources at the end. (Continued P.92)



From P.91 (continued). Your understanding of the MEANING of school accounts is dependent upon knowing how effective the system of accounts does measure position and flow. Moving toward the MEANING in the title, "Meaning of School Accounts," try an example. Suppose you see in a school district that the amount of resources (position) at the end of a fiscal period is actually less than at the beginning. Yet, in the scheme of accounts, the position at the beginning and end is assumed to be equal. What distortion will occur in reporting the volume of flow out (cost of the educational program) versus the actual volume out?

DIRECTION: If your answer is a. The cost of educating pupils will be overstated, go to P.96; if b. The cost of educating pupils will be understated, go to P.97; c. "I don't get it," go to P.87.

From P.101.

Books of School District X--A Cycle of Accounting
Key to Trial Balance (Closing Date)

| Account | Balances | |
|---|---|---|
| | Debit | Credit |
| Bank | $ 239,850 | |
| Supplies | 5,600 | |
| Equipment | 8,250 | |
| Building | 3,000,000 | |
| Vendor C | | -0- |
| Vendor D | | $ 7,000 |
| Contractor | | -0- |
| Bonds Outstanding | | 3,000,000 |
| Surplus | | 150,200 |
| Property Taxes | | 600,000 |
| Superintendent's Salary | 12,500 | |
| Teachers' Salaries | 425,000 | |
| Custodial Salaries | 66,000 | |
| | $3,757,200 | $3,757,200 |

DIRECTION: If your trial balance does not agree with the above, turn to Pp.94-95 to check and correct your accounts. If it does agree, turn to P.102.



From P.93. Key to the Books of School District X--A Cycle of Accounting

**Bank**

| | | | |
|---|---|---|---|
| (Bal) | $450,000 | (a) | $ 5,000 |
| (e) | 600,000 | (b) | 66,000 |
| (h) | 200,000 | (c) | 12,500 |
| ($239,850) | | (f) | 1,850 |
| | | (g) | 425,000 |
| | | (i) | 500,000 |

**Supplies**

| | | | |
|---|---|---|---|
| (Bal) | $ 600 | | |
| (a) | 5,000 | | |
| ($5,600) | | | |

**Vendor C**

| | | | |
|---|---|---|---|
| (f) | $1,850 | (Bal) | $1,850 |

**Vendor D**

| | | | |
|---|---|---|---|
| | | (d) | $7,000 |

**Contractor**

| | | | |
|---|---|---|---|
| (i) | $500,000 | (Bal) | $500,000 |

(Continued P.95)

From P.94 (continued).

| Equipment | |
|---|---|
| (Bal) | $ 1,250 |
| (d) | 7,000 |
| ($8,250) | |

| Bonds Outstanding | |
|---|---|
| | (Bal) $2,800,000 |
| | (h) 2,000,000 |
| | ($3,000,000) |

| Building | |
|---|---|
| (Bal) | $3,000,000 |

| Surplus | |
|---|---|
| | (Bal) $150,200 |

| Property Taxes | |
|---|---|
| | (a) $600,000 |

| Teachers' Salaries | |
|---|---|
| (g) | $425,000 |

| Superintendent's Salary | |
|---|---|
| (c) | $12,500 |

| Custodial Salaries | |
|---|---|
| (b) | $ 66,000 |

DIRECTION: Correct your accounts and return to P.93 to recheck your trial balance.



From P.92. Your answer: a. The cost of educating pupils will be overstated. Let's arrange the conditions of the problem: You assume that your beginning resources and ending resources are equal. In other words, if you start with a position of $100,000, you assume you end with $100,000. So the resources used to educate pupils is reported as equal to the flow in. For example:

| | |
|---|---|
| Flow in (revenues) | $500,000 |
| Plus beginning resources (position) | 100,000 |
| Total available resources | $600,000 |
| Less assumed ending resources (position) | 100,000 |
| Flow out or stated cost of educating pupils by the assumption | $500,000 |

While you assumed the ending resources were equal, the problem states "the actual amount of resources at the end of fiscal period is less than at the beginning." Say the ending position volume is $25,000 less: $100,000 - $25,000 = $75,000. Thus:

| | |
|---|---|
| Total available resources (from above) | $600,000 |
| Less actual ending resources (position) | 75,000 |
| Actual flow out (cost of educating pupils) | $525,000 |

The assumed cost of $500,000 is understated.

DIRECTION: Return to P.92 to select the correct answer.

From P.92. Your answer: b. The cost of educating pupils will be understated. ABSOLUTELY CORRECT! Actually, in this instance your flow out (or cost of educating pupils) has been greater than your flow in (or revenues) during the fiscal period. But by assuming that the resources in position at the end are the same as those in position at the beginning, cost of educating pupils has been understated.

The system of school accounts does have limitations similar to our example. And to know the limitations of the system of data collecting and reporting is to understand their MEANING. We are ahead of our story, though. The given example is but a preview to an intriguing plot of circumstances to come later that will provide the answer to the question: How valid is the informaton collected in your school accounts?

One additional exercise is necessary in Chaper 2 to clinch the concepts you now know about school accounts and the accounting cycle--a miniature accounting cycle for School District X resulting in a closing position statement or balance sheet and a statement of operations. (Continued P.98).



From P.97 (continued). The school board member and school administrator may not at this point see the relationship between what is done in his school's accounts and the model to follow. We ask your indulgence, though. Following through this model is important later to your knowing what school accounts do mean.

Assume the beginning position on July 1 (current year) to be that of the balance sheet prepared at the beginning of this chapter. Draw your own T accounts and enter the beginning position balances (as illustrated on Pp.100 and 101). Then, record the following transactions:

a. Supplies in the amount of $5,000 are received and paid for. We've recorded transaction "a" on P.100: dr., a., Supplies; cr., a., Bank for $5000. Label each transaction as b., c., etc. as we have transaction a. Now you're on your own for the remaining transactions.
b. Custodial salaries amounting to $66,000 are paid.
c. The superintendent's salary of $12,500 is paid. (Continued, P.99)

From P.98 (continued).
d. Additional playground equipment is purchased on credit for $7,000 from Vendor D.
e. Property taxes in the amount of $600,000 have been collected and deposited in your bank account by the County Treasurer.
f. The Board has authorized payment of $1,850 owed to Vendor C. The check is mailed to him.
g. Teachers' salaries amounting to $425,000 are paid.
h. Additional bonds authorized are sold at par, $200,000.
i. The contractor has completed all the work on the building and a check for $500,000 is mailed to him.
j. It is assumed that all of the supplies (beginning balance plus those purchased) have been used. (Note: An entry is not required but this item will affect your operating statement as well as your balance sheet.)
k. It is assumed that the building and the equipment are of the same value at the close of the fiscal period as their purchase value (see Note following transaction j.). (Continued, P.100)

DIRECTION: When transactions are recorded in T accounts, go to P.93 to check your Trial Balance.



From P.99 (continued). Balance your accounts and take a trial balance (using your own paper)--Books of School District X. Beginning balances have been recorded for this example of a Cycle of Accounting.

| Bank | | | |
|---|---|---|---|
| (Bal) | $450,200 | a. | $5,000 |

| Supplies | | | |
|---|---|---|---|
| (Bal) | $ 600 | | |
| a. | 5,000 | | |

| Equipment | |
|---|---|
| (Bal) | $1,250 |

| Building | |
|---|---|
| (Bal) | $3,000,000 |

| Vendor C | |
|---|---|
| (Bal) | $1,850 |

| Vendor D | |
|---|---|
| | |

| Contractor | |
|---|---|
| (Bal) | $500,000 |

| Bonds Outstanding | |
|---|---|
| (Bal) | $2,800,000 |

| Surplus | |
|---|---|
| (Bal) | $150,200 |

(Continued, P.101)

From P.100 (continued).

| Property Taxes | Teachers' Salaries |
|---|---|
| Superintendent's Salary | Custodial Salaries |

DIRECTION: Return to Pp.98 and 99 to read and record the transactions in your T accounts.



From P.93. You're here because your account balances agree with those in the trial balance. GOOD! Fill in and complete your financial statements below from the balances in your trial balance.

School District X
Operating Statement for the Fiscal Period
of July 1, 19-- to June 30, 19--

| | | |
|---|---|---|
| Revenue: | | |
| Property Taxes | | $..... |
| Expenses: | | |
| Superintendent's Salary | $..... | |
| Teachers' Salaries | ..... | |
| Supplies Used | ..... | |
| Custodial Salaries | ..... | |
| Total Expenses | | ..... |
| Excess of Revenues (to be added to Surplus) | | $ 90,900 |

(Continued, P.103)

From P.102 (continued).

School District X
Statement of Position as of June 30, 19--

| | | |
|---|---|---|
| Assets: | | |
| Bank | $..... | |
| Equipment | ..... | |
| Building | ..... | |
| Total Assets | | $3,248,100 |
| Liabilities: | | |
| Vendor D | $..... | |
| Bonds Outstanding | ..... | |
| Total Liabilities | | $..... |
| Equity: | | |
| Surplus as of July 1, 19-- | $ 150,200 | |
| Add: Excess of Revenues this Fiscal Period | ..... | |
| Total Equity | | $..... |
| Total Liabilities and Equity | | $3,248,100 |

DIRECTION: Check your statements with those on Pp. 104 and 105 and, if necessary, correct them.



From P.101 and P.102.

School District X
Operating Statement for the Fiscal Period
of July 1, 19-- to June 30, 19--

| | | |
|---|---|---|
| Revenue: | | |
| Property Taxes | | $600,000 |
| Expenses: | | |
| Superintendent's Salary | $ 12,500 | |
| Teachers' Salaries | 425,000 | |
| Supplies Used | 5,600 | |
| Custodial Salaries | 66,000 | |
| Total Expenses | | 509,100 |
| Excess of Revenues (to be added to Surplus) | | $ 90,900 |

(Continued, P.105).

From P.104 (continued).

School District X
Statement of Position as of June 30, 19--

| | | |
|---|---|---|
| Assets: | | |
| Bank | $ 239,850 | |
| Equipment | 8,250 | |
| Building | 3,000,000 | |
| Total Assets | | $3,248,100 |
| Liabilities: | | |
| Vendor D | $ 7,000 | |
| Bonds Outstanding | 3,000,000 | |
| Total Liabilities | | $3,007,000 |
| Equity: | | |
| Surplus as of July 1, 19-- | $ 150,200 | |
| Add: Excess of Revenues this Fiscal Period | 90,900 | |
| Total Equity | | 241,100 |
| Total Liabilities and Equity | | $3,248,100 |

DIRECTION: When your statements are correct, go to P.89.



From P.89. Your answer: b. debit, Property Taxes, $600,000; credit, Surplus, $600,000. CORRECT AGAIN! You have closed the property account by offsetting its credit balance with an equal amount on the debit side. You have transferred this amount to Surplus, in the same position as it was in the revenue account before transfer.

DIRECTION: Return to your T accounts and close your operating accounts (revenue and expenses) to Surplus. When you are through, check your "books" or accounts to see that the balances of the accounts agree with those in the post-closing trial balance on P.107.

From P.106 (continued).

School District X
Post Closing Trial Balance
June 30, 19--

| Account | Debit | Credit |
|---|---|---|
| Bank | $ 239,850 | |
| Equipment | 8,250 | |
| Building | 3,000,000 | |
| Vendor D | | $ 7,000 |
| Bonds Outstanding | | 3,000,000 |
| Surplus | | 241,100 |
| Totals | $3,248,100 | $3,248,100 |

DIRECTION: As soon as you have completed checking your account balances with the post-closing trial balance, you are ready to take the test on Chapter 2, P.108.



From P.107.

Test on Chapter 2
The Flow of Revenues and Expenses

1. If resources in assets entering a school district (either from revenues or from other sources) are greater than the resources leaving during a fiscal period, the resources remaining in "position" will be
   a. increased b. decreased

2. A statement of position is called a(n)
   a. balance sheet b. operating statement

3. A balance sheet as a financial statement reflects values
   a. for a period of time b. at a point in time

4. An operating statement reflects values
   a. for a period of time b. at a point in time

5. A revenue account balance is a
   a. debit b. credit

(Continued P.109).

From P.108 (continued).

6. An expense account balance is a
   a. debit b. credit

7. If the expenses of a fiscal period are larger than the revenues, the net effect on surplus is to
   a. decrease it b. increase it

8. Suppose you assume that all supplies are used in a fiscal period when, in actuality, some are left over. How will this assumption distort the value of your expenses?
   a. overstate b. understate

9. A year's cycle of accounting starting with a beginning position and measuring the flow in and out is called a ..... period.

10. Failure to recognize use value (depreciation) of a building or equipment will distort the value of your stated expenses. How?
   a. overstate b. understate

DIRECTION: P.110 contains answers and references.



From P.109. Key to Chapter 2 Test.

| Answer | Review Pages |
|---|---|
| 1. a. increased | 71,72 |
| 2. a. balance sheet | 63,64 |
| 3. b. reflects values at a point in time | 67,68,103 |
| 4. a. reflects values for a period of time | 90,102 |
| 5. b. credit | 62,68 |
| 6. a. debit | 71,72 |
| 7. a. decreased | 81 |
| 8. a. overstate | 92 |
| 9. fiscal | 91 |
| 10. b. understate | 92 |

## Classification of School Accounting Data

The emphasis in Chapter 3, "Classification of School Accounting Data," is on the word SCHOOL accounting versus business or other entity accounting. In the first chapters, school accounting has been considered in terms of position and flow of values of a total school district. Practice and legal requirements dictate that accounting for school values be separated into parts, called "funds." The purpose of this chapter is to learn how these funds relate to position and flow of values in a total school effort.

The idea of a school fund can be grasped by an illustration from farm life of some 75 years ago. On a pantry shelf, Aunt Hattie retained a series of pots in which she kept the household money. One pot was labeled "egg money" that was used for food; another, "new dress." Each of Aunt Hattie's special needs (sewing machine, new curtains, or new churn) required a different pot in which funds were collected to be expended later for a specific purpose. A well-run household. This pot method was Aunt Hattie's way of managing and controlling her household finances. (Continued P.112).



From P.111 (continued). Her husband often smiled at such financial management. Still he did not object because even his funds for chewing tobacco (quite a sizeable cash outlay in a year) came from Aunt Hattie's egg money. Aunt Hattie judiciously governed the flow of funds in and out of each of her pots--and her word was law on which pot was for what!

The funds of a school district are similar to Aunt Hattie's pots. In the various states, an agent of the legislature, e.g., Superintendent of Public Instruction, prescribes appropriate funds or pots and their accompanying accounting records that must be kept. Legislative enactments direct the separation of certain funds received or expended into separate pots. For example, school buildings are often built with funds from bond issues. Thus, would you expect to find cash received from the sale of bonds in a. a debt retirement fund; or b. a bond fund?

DIRECTION: If your answer is a. a debt retirement fund, go to P.118; b. a bond fund, go to P.115.

From P.124. Your answer: The error is in Group a. Examine the transactions below to see where the error is:

1. State aid is usually appropriated and distributed to school districts for day-by-day operations of the school. Therefore, the entry would be recorded in the General Fund. The entry is correct.
2. Proceeds from a bond issue received are for a special purpose and must be separated into a special fund, i.e., Bond Fund. Correct.
3. Payment of teachers is a normal operating cost appropriately handled in the General Fund. Correct.
4. Cafeteria Fund is usually a revolving fund in which the receipts from the sale of foods are applied to the costs of purchasing and preparing the food. Therefore, the entry would be recorded in the Cafeteria Fund.
5. The value of buildings and grounds workers' salaries has been converted to a new value that will be retained by the school district in landscaping. Such salaries are appropriately charged to the value of the site in the Building and Site Fund. Correct.

DIRECTION: The error is not in Group a. Return to P.124 to find the error in Group b.



From P.126. Your answer: a. Well, let's look closer. The journalized transaction was:

| | | | |
|---|---|---|---|
| a. | Bank | $190,000 | |
| b. | Taxes Receivable--Current | | $190,000 |
| | To record the collection of taxes received | | |

You'll see it if you draw a T account over the money columns as we have with dr. left and cr. right.

DIRECTION: Return to P.126 to look at the journal entry, visualize a T over the money columns, and follow the other direction.

From P.112. Your answer: b. a bond fund. RIGHT. Legislation imposed on school districts usually dictates stringent conditions under which a bond issue can be floated. To help ensure that the conditions are met, the proceeds are received into and accounted for through a special pot known as a bond fund or as the "Building and Site Fund," if this is the restricted purpose for which the bonds are authorized and sold.

While legislation or conditions vary from state to state, the funds generally necessary to account for a school district's values are: 1. General Operating Fund (or just General Fund), 2. Building and Site Fund, 3. Internal Funds, 4. Debt Retirement Fund, 5. Revolving Funds, and 6. Capital Asset Fund.

From the name of the funds, you would expect to find the collection of six mills of tax levied to pay off bonds recorded in one of the following groups of funds. Group a: (1) General, (2) Building and Site, or (3) Internal. Group b: (4) Debt Retirement, (5) Revolving, or (6) Capital Asset. Which group, a. or b.?

DIRECTION: If your answer is Group a, go to P.119; Group b, go to P.122.



From P.125. Your answer: The error is in Group b. YOU ARE CORRECT. Make sure that you did spot the right error. Transaction 6.: Apparently, the junior high school has been in operation for some time for desks are now being replaced. The Building and Site Fund is for building and equipping new buildings or acquiring new sites. So listing Building and Site is in error. One other error exists in this transaction: The replacement of worn-out desks with desks of similar quality is frequently considered on a cash basis, in school accounting, to be a current operating cost chargeable to maintenance in the General Fund. (We'll have more to say about this entry later.)

Check the other transactions:

7. A new building would properly be transferred to the Capital Asset Fund.
8. The Athletic Fund is an internal account. Officiating for a game is paid from this fund and of course the fund is usually replenished from athletic receipts.
9. Custodial supplies is a normal purchase for operations and is properly recorded in the General Fund.
10. Property taxes specifically collected for the retirement of debt must be accounted for separately in the Debt Retirement Fund. (Continued, P.117.)

From P.116 (continued). Now you have an overview of the funds of a school district. Each fund reflects position (A=L+E) and flow of revenue in and expense out. Thus, it is possible to prepare 1. a(n)..... to show the condition of each fund at some point in time and 2. a(n)..... to show the flow of values in and out of each fund for a period of time.

DIRECTION: a. If your answer for 1. is operating statement and for 2. is balance sheet, go to P.121; b. If your answer for 1. is balance sheet and for 2. is operating statement, go to P.125.



From P.112. Your answer: a. a debt retirement fund.

Debt retirement relates to the paying off or retiring of bonds. Unlike a corporate bond issue, retirement of a school bond issue would not ordinarily be made through the sale of another issue.

Legal requirements for floating a school bond issue are quite exacting: to ensure authorization by a vote, preparation and sale of a district's bonds, and accounting that the purposes for which the proceeds are obtained will be met. To ensure these legislative requirements, financial transactions related to floating a bond issue are separated in a bond fund.

DIRECTION: Return to P.112 to follow the other direction.

From P.115. Your answer: Group a: (1) General, (2) Building and Site, or (3) Internal. The district has authorized a six-mill levy for bond retirement. Look at the funds listed in Group a:

1. General. Remember that this fund is called "General Operating Fund." Thus, current operating values are recorded here. Retiring a bond issue is more special than current operations. The taxes collected for bond retirement should not be recorded here.

2. Building and Site. From previous discussion, you know that Building and Site Fund accounts for bond or other money used in the building of buildings or the acquisition of sites in accordance with legislation. Building and Site Fund is not for the retirement of bonds.

3. Internal or Activity Funds account for co-curricular functions of the school. The school as financial agent for the club or activity is responsible to account for such funds.

DIRECTION: Return to P.115 to see if you can spot the fund in Group 2.



From P.125. Your answer: b. No.

Well, let's consider this: The whole is usually considered to be equal to the sum of its parts. Then, to the extent that there were not overlapping values in several funds, the consolidated balance sheet of all funds should provide the "big picture" of the entity as a whole at any given time.

DIRECTION: Return to P.125 to follow the other direction.

From P.117. Your answer: a. (1) operating statement (2) balance sheet.

You've forgotten what you studied in Chapters 1 and 2. The question is nothing more than a review question. A statement of position at any given time is a statement of A=L+E, or a balance sheet. A statement of flow is an operating statement. Do you need to review these ideas? If so, return to Chapter 2 Test on Pp.108 to spot review the material. Probably, though, you were just careless.

DIRECTION: After reviewing Chapter 2, return to P.117.



From P.115. Your answer: Group b: (4) Debt Retirement, (5) Revolving, or (6) Capital Asset. The six-mill levy is recorded as a receipt in the Debt Retirement Fund. O.K., but make sure you know why. The Debt Retirement Fund accounts for all values related to paying off the bonds. Therefore, the six-mill levy collected for debt retirement would be recorded in this fund.

You rejected in Group a the (1) General Fund because the name implies correctly a concern with current operations; (2) Building and Site Fund because the name implies the receiving of funds from bonds or other sources for the building of buildings or the acquisition of sites; and (3) Internal Funds which include primarily co-curricular activity funds in which the school acts as agent.

In Group b, a Revolving Fund is more or less a self-replenishing fund such as a bookstore. The sale of books and supplies to students provides additional funds to replenish the stock of books and supplies to sell again. Such a fund operates without outside resources except perhaps to buy the original stock of books. A school cafeteria fund is usually a revolving fund. (Continued, p.123.)

From P.122 (continued). In the capital assets fund, you would expect to find the fixed or more permanent values. Thus, after a new high school is built, the value of the building is transferred to the capital asset fund.

You now have a general idea of what school fund accounting consists and the names of some of the funds. Let's review some of this new information. At the left below are typical school financial transactions. At the right, the fund in which the transaction is recorded. There is an error in one of the groups. Which is it, a. or b.?

| GROUP a: Transaction | Fund |
|---|---|
| 1. A grant in aid is received from the state (Dr. Bank, Cr. State School Aid) | 1. General |
| 2. Money is received from the sale of bonds (Dr. Bank, Cr. Bonds Outstanding | 2. Building and Site |
| 3. Teachers' salaries are paid (Dr. Teachers' Salaries, Cr. Bank) | 3. General |
| 4. Cafeteria cash collected today is deposited (Dr. Bank, Cr. Cafeteria Sales) | 4. Cafeteria Fund |
| 5. Salaries of buildings and grounds workers are paid for landscaping the new building almost completed (Dr. New Building Site, Cr. Bank) | 5. Building and Site |

(Continued P.124)



From P.123 (continued).

| GROUP b. Transaction | Fund |
|---|---|
| 6. Thirty-five desks are replaced in the junior high school building (Dr. Equipment, Cr. Vendor or Bank) | 6. Building and Site |
| 7. The new and completed building is accepted by the school district and the Building and Site Fund has been closed (Dr. New Building, Cr. Liability and/or Surplus) | 7. Capital Asset |
| 8. Game officials are paid for their work (Dr. Officiating Costs, Cr. Bank) | 8. Athletic Fund |
| 9. Custodial supplies are purchased (Dr. Custodial Supplies, Cr. Bank or Vendor) | 9. General |
| 10. Money collected as a special millage on property taxes to pay off a bond issue is received (Dr. Bank, Cr. Taxes Received for Debt Retirement) | 10. Debt Retirement |

DIRECTION: If the error is in Group a, go to P.113; in Group b, go to P.116.

From P.117. Your answer: 1. balance sheet 2. operating statement.

FINE. You have not forgotten what you learned in Chapters 1 and 2.

Thus, to obtain a picture of the position of the TOTAL school district at any given time, would it be necessary to consolidate the picture obtained from the balance sheets of each of the parts: a. Yes? or b. No?

DIRECTION: If your answer is a. Yes, go to P.126; b. No, go to P.120.



From P.125. Your answer: a. Yes. GOOD. The whole is equal to the sum of its parts.

Consolidation of funds balance sheets will give the "big picture" provided that overlapping fund values are eliminated--a slight complication of inter-fund accounting that we will not consider here. It's time to learn about another tool of the accountant, journalizing.

Journalizing is another tool of analysis. Thus far, you have used T accounts to analyze the debits and credits of transactions as they reflect the changing values of A=L+E(R-Ex). Now we're going to journalize an entry. Remember: left is debit, right is credit.

In the following journal transaction, which is the credit part of the transaction, a or b?

| | | | |
|---|---|---|---|
| a. | Bank | $190,000 | |
| b. | Taxes Receivable--Current | | $190,000 |
| | To record the collection of taxes received | | |

DIRECTION: If your answer is a, go to P.114; b, go to P.128.

From P.129. Your answer: a. journal.

Come now, if all the transactions were listed chronologically in a journal, the journal would contain more than entries related to taxes receivable, wouldn't it?

DIRECTION: Return to P.129, reread the material, and then proceed.



From P.128. Your answer: b.

GOOD. By drawing a T account over the money columns, you find the same condition prevails in a journal entry as in a T account: left is debit, right is credit. So,

| | | dr. | cr. |
|---|---|---|---|
| a. | Bank | $190,000 | |
| b. | Taxes Receivable--Current | | $190,000 |
| | To record the collection of taxes received | | |

Note that in a general journal entry, the account title for the credit is usually indented to the right. Thus, by position of the items in a journal entry, you know which is debit and which is credit. The advantages of the journal entry in analyzing a transaction are: 1. all the debits and credits of a single transaction can be recorded in the same place (without separate T accounts) and 2. an explanation of the reasons behind the transaction can be given for added clarity of thinking. (Continued, P.129.)

From P.128 (continued). If your school district has computerized its accounting, or uses some form of special journals such as cash receipts, vouchers, or other means, you may not at first recognize this accountant's tool of analysis as a part of your school's accounting system.

We won't belabor the discussion of "books of original entry" or journals of a school district, because you want to know the MEANING of school accounts and not procedures. Suffice it to say, that a journal or "daybook" provides a chronological record of transactions. The book of accounts (ledger) or "book of final entry" classifies the chronological information according to specific kinds of values. So, would you expect the classification of information related to current taxes receivable to be in a. journal, or b. ledger account?

DIRECTION: If your answer is a. journal, go to P.127; or b. ledger account, go to P.130.



From P.129. Your answer: b. ledger account. GOOD. Ledgers are books of final entry in which specific data are classified. This tool, journalizing, is based upon the most primitive of all journals, the two-column general journal in which transactions can be analyzed according to their effect on debits and credits of certain classified values.

To practice using this tool of journalizing, return to Chapter 2, Pp.98-99, journalize each of the entries. Note that each of the entries from a. to g. is an operating transaction recorded in the General Fund. Entry d. has a second entry in Capital Assets Fund (Dr. Playground Equipment and Cr. Surplus). Make only the General Fund entry for d., though. Entries h. and i. are recorded in the Building and Site Fund. Transaction a. is journalized below to help you. Note the explanation given for each transaction.

General Fund:

| | | |
|---|---|---|
| a. Supplies | $5,000 | |
| Bank | | $5,000 |
| Supplies purchased and paid for | | |

DIRECTION: When you have completed journalizing the transactions on Pp. 98-99, go to P.133 to check your entries against the key.

From P.134. You have now completed checking and correcting your journal entries. Journalizing will help you in the analysis of school accounting data. But now it's time to take another look at the classification of these data by developing a chart of accounts.

CHART OF ACCOUNTS--RECEIPTS. To now, you have learned three ways of classifying school accounting data: 1. according to position (balance sheet); b. according to flow of values in and out (operating statement); and 3. according to funds e.g., General and Building and Site.

Consider within each fund the flow-in of values: revenues or receipts. Receipts can be classified according to source. For example, in the General Fund, receipts may be classified into major sources such as:

| Code Series Numbers | Classification |
|---|---|
| 20 | Property Tax |
| 30 | Grants in Aid |
| 40 | Services |
| 50 | Other Revenue Receipts |

(Continued, P.132)



From P.131 (continued). The number at the left is a code used in developing a chart of accounts. Thus, all property tax receipt accounts are numbered in the twenty series. Therefore, you would expect an account for State School Aid to carry an account number in the a. twenties, b. thirties, c. forties, or d. fifties code.

DIRECTION: If your answer is a. twenties, go to P.135; b. thirties, go to P.137; c. forties, go to P.135; or d. fifties, go to P.135.

From P.130. Key to journal entries from Chapter 2, Pp.98-99.

GENERAL FUND JOURNAL:

| Transaction | Dr. | Cr. |
|---|---|---|
| a. Supplies | $ 5,000 | |
| Bank | | $ 5,000 |
| Supplies received and paid for | | |
| b. Operations: Custodial Salaries | 66,000 | |
| Bank | | 66,000 |
| Custodial salaries paid to date | | |
| c. Administration: Superintendent's Salary | 12,500 | |
| Bank | | 12,500 |
| Superintendent's salary paid to date | | |
| d. Capital Outlay: Equipment | 7,000 | |
| Vendor D | | 7,000 |
| Playground equipment purchased on credit | | |
| e. Bank | 600,000 | |
| Property Taxes | | 600,000 |
| Current property taxes received | | |

(Continued, P.134).



From P.133 (continued).

| | | |
|---|---|---|
| f. Vendor C | 1,850 | |
| Bank | | 1,850 |
| Payment authorized and check issued | | |
| g. Instruction: Teachers' Salaries | 425,000 | |
| Bank | | 425,000 |
| Teachers' salaries are paid | | |
| BUILDING AND SITE FUND | | |
| h. Building and Site Fund Bank | 200,000 | |
| Bonds Outstanding | | 200,000 |
| Bonds sold at par | | |
| i. Contractor | 500,000 | |
| Building and Site Fund Bank | | 500,000 |
| Check mailed today (Note: When the district accepts the building and the work for which the Building and Site Fund had been set up is completed, this fund is closed and the building value is transferred to Capital Assets.) | | |

DIRECTION: Check and correct your journal entries and go to P.131.

From P.132. Your answer: (a) twenties or (c) forties or (d) fifties.

Perhaps our communication is foggy, so consider the problem in a different way. To classify accounting data, determine first the basis of clasification. Receipts in the General Fund may be classified according to their source: property tax, grants in aid from the state, etc. If a chart of accounts is developed and numbers assigned to them, similar receipts accounts carry similar code numbers. Thus, we could designate property taxes as the twenty series with the following accounts:

| Code Twenty Series | Property Tax Accounts |
|---|---|
| 21 | Current Taxes |
| 22 | Delinquent Taxes |
| 23 | Interest on Delinquent Taxes |
| 24-29 | (additional property tax accounts) |

In the same way, all accounts that show receipts for services would carry a code number in the forties; and other revenues, in the fifties.

DIRECTION: Return to P.132 to select a better answer.



From P.154. Your answer: b. Underestimate the cost of educating children. You probably failed to consider that part of the question "for the fiscal period in which they are bought." The journal entry for the transaction is:

| | | | |
|---|---|---|---|
| Dr. | Maintenance: Typewriters (an expense) | $3,500 | |
| Cr. | Cash or Vendor | | $3,500 |
| | To record the value of 35 typewriters purchased but assumed to be used in this fiscal period | | |

If the value is assumed to flow out (to be used up) but isn't, the $3,500 is assumed to increase expense (decrease surplus) or increase the cost of educating children.

DIRECTION: Return to P.154 to reread and re-analyze the question before selecting the other answer.

From P.132. Your answer: b. thirties. O.K. If grants in aid are coded in the thirties, a chart of accounts under grants in aid could be:

| Account Code No. | Grants in Aid | Account Code No. | Grants in Aid |
|---|---|---|---|
| 31 | State Primary Fund | 35 | Aid for Exceptional Children |
| 32 | State School Aid | 36 | Vocational Education Aid |
| 33 | Library Fund | 37 | School Land Grants |
| 34 | Rural Agricultural Aid | | |

Now suppose in code twenty (property taxes), you received the following property taxes according to source: current taxes, delinquent taxes, and interest on delinquent taxes. Starting with Account Code No. 21, code these three accounts.

| Account | Account Code No. |
|---|---|
| a. Current Taxes | ..... |
| b. Delinquent Taxes | ..... |
| c. Interest on Delinquent Taxes | ..... |

DIRECTION: Go to P.140 to check your answers.



From P.140. Your answer should be:

| Services | Forty Series |
|---|---|
| Tuition Receipts | 41 |
| Transportation Fees | 42 |
| **Other Revenue Receipts** | **Fifty Series** |
| Rental of Property | 51 |
| Gifts and Contributions | 52 |
| Interest Received | 53 |
| Other Revenue | 59 |

Code No. 59, Other Revenue, is a miscellaneous type of account. Assigning the last number in the fifty series permits an expansion of the chart of accounts if other revenue receipt accounts are needed later. In the same way, look at the Services code series above. Other or Miscellaneous Services would be coded as what number? .....

DIRECTION: Go to P.143 to check your answer.

From P.144. Your answers should be 200 (General Fund receipts) and 300 (General Fund disbursements).

In a similar way, the receipts and disbursements of the Building and Site Fund would be in the 400 and 500 series; the Debt Retirement Fund, in the 600 and 700 series. O.K.?

Within a fund, expenditures may be classified according to function. Thus, Administration, an important function, is coded in the 10 series of expenditures. Now, combining the fund code with the function code, you would expect to find administration accounts in what number series? .....

DIRECTION: Check your answer on P.146.



From P.137. Your answer should be:

| Property Tax | Account Code Number |
|---|---|
| a. Current Taxes | 21 |
| b. Delinquent Taxes | 22 |
| c. Interest on Delinquent Taxes | 23 |

In a similar way, code the forty and fifty series:

| Services | Forty Series |
|---|---|
| Tuition Receipts | .... |
| Transportation Fees | .... |
| **Other Revenue Receipts** | **Fifty Series** |
| Rental of Property | .... |
| Gifts and Contributions | .... |
| Interest Received | .... |
| Other Revenue | 59 |

DIRECTION: When you have coded the above types of receipts by source, turn to P.138 to check them.

From P.148. Check your coding of accounts from P.148.

| Receipts | 200 General | 400 Bldg.& Site | 600 Debt Retirement |
|---|---|---|---|
| 20 Property Tax | | | |
| 21 Current Taxes | 221 | 421 | 621 |
| 22 Delinquent Taxes | 222 | 422 | 622 |
| 23 Interest on Delinquent Taxes | 223 | 423 | 623 |
| 30 Grants in Aid | | | |
| 31 State Primary Fund | 231 | | |
| 32 State School Aid | 232 | | |
| 33 Library Fund | 233 | | |
| 34 Rural Agricultural Aid | 234 | | |
| 35 Aid for Exceptional Children | 235 | | |
| 36 Vocational Education Aid | 236 | | |
| 37 School Land Grants | 237 | | |

DIRECTION: When you have checked and corrected any errors in your chart of acounts for receipts, go to P.144.



From P.154. Your answer should be: a. Overestimate the cost of educating children. RIGHT. The cost of educating children is overestimated in the fiscal period of purchase by the amount assumed to be used but which was not totally used. But by the same token, such an assumption will in the next fiscal period distort the estimate of the cost of educating children. How? a., by overestimating the cost, or b., underestimating?

DIRECTION: If your answer is a., go to P.145; b., go to P.156.

From P.138. Your answer should be: 49. O.K.?

Take one additional step in charting accounts. Code the General Fund Revenues in the 200 series; Building and Site Fund, 400; and Debt Retirement, 600. Thus, combining the fund code and the source code series (remember, current taxes were in the twenty code), General Fund Current Taxes would be numbered .....

DIRECTION: Check your answer on P.148.



From P.141. Your chart of accounts for receipts has been checked. Now look at a code for disbursements.

CHART OF ACCOUNTS--EXPENDITURES. Expenditures first may be classified according to fund. Thus,

| Fund | Disbursement Code Series |
|---|---|
| General | 300 |
| Building and Site | 500 |
| Debt Retirement | 700 |

Combining this new information with what you now know about revenue receipts, you would expect the receipts to and disbursements from the General Fund to be in the ..... and ..... (hundred) series.

DIRECTION: Check your answers on P.139.

From P.142. Your answer: Overestimate.

If you overestimated the cost of educating pupils in the fiscal period the typewriters were bought, you assumed you "spent" the $7,000 on pupils that period. Actually, though, part of it should have been considered to be used in the next fiscal period--and wasn't. Therefore, the next fiscal period, you did not show the used portion of value applicable to that next period. Your expenses were not overestimated, were they? On the contrary.

DIRECTION: Return to P.142 to re-analyze and select the other answer.



From P.139. Your answer should be 310's. The General Fund Expenditure Code is in the 300's and function code for Administration, in the 10's.

A third kind of classification is according to object or the specific kind of service or product obtained for an expenditure such as teachers' salaries or textbooks.

Complete the following chart of expenditures by assigning appropriate account numbers--including the object classification, for the following accounts in the General Fund. Salaries of Board of Education is given as an example.

| Function Code Series | | General Fund Account No. (300) |
|---|---|---|
| 10 | ADMINISTRATION | |
| | Salaries of Board of Education | 311 |
| | Salaries of Superintendent & Assistants | ... |
| | Salary of Business Administrator | ... |
| | Clerical Salaries | ... |
| | Administrative Supplies & Expenses | ... |
| | Census and Compulsory Attendance | ... |
| | Elections | ... |
| | Other Administrative Expense | 319 |

(Continued P.147)

From P.146 (continued).

| | | |
|---|---|---|
| 20 | INSTRUCTION | |
| | Salaries of Supervisors | ... |
| | Salaries of Principals | ... |
| | Salaries of Teachers | ... |
| | Clerical Salaries | ... |
| | Teaching Supplies and Expenses | ... |
| | Tuition Expense | ... |
| | Textbooks | ... |
| | School Library | ... |
| | Other Instruction Expense | 329 |
| 30 | OPERATION OF SCHOOL PLANT | |
| | Wages | ... |
| | Fuel and Utilities | ... |
| | Operating Supplies & Expense | ... |
| | Other Operating Expense | 339 |
| 40 | MAINTENANCE OF SCHOOL PLANT | |
| | Maintenance of Grounds | ... |
| | Maintenance of Buildings | ... |
| | Maintenance of Furniture & Equipment | ... |
| | Other Maintenance Expense | 349 |

DIRECTION: Go to P.149 to check your coding.



From P.143. Your answer should be: 221--General Fund 200 and Current Taxes 21 or 221.

In the same way, code the other property tax accounts in the General, Building and Site, and Debt Retirement Funds; likewise, code the Grants in Aid for the General Fund. (Note--Building and Site and Debt Retirement receipts are not generally provided from grants.)

| | Receipts | 200 General | 400 Bldg. & Site | 600 Debt Retirement |
|---|---|---|---|---|
| 20 | Property Tax | | | |
| | Current Taxes | ..... | ..... | ..... |
| | Delinquent Taxes | ..... | ..... | ..... |
| | Interest on Delinquent Taxes | ..... | ..... | ..... |
| 30 | Grants in Aid | | | |
| | State Primary Fund | ..... | | |
| | State School Aid | ..... | | |
| | Library Fund | ..... | | |
| | Rural Agricultural Aid | ..... | | |
| | Aid for Exceptional Children | ..... | | |
| | Vocational Education Aid | ..... | | |
| | School Land Grants | ..... | | |

DIRECTION: When you have coded your accounts, turn to P.141 to check.

From P.147. Key to chart of accounts according to fund (General), function, and object:

| Function Code Series | | General Fund Account Number (300) |
|---|---|---|
| 10 | ADMINISTRATION | |
| | Salaries of Board of Education | 311 |
| | Salaries of Superintendent and Assistants | 312 |
| | Salary of Business Administrator | 313 |
| | Clerical Salaries | 314 |
| | Administrative Supplies and Expenses | 315 |
| | Census and Compulsory Attendance | 316 |
| | Elections | 317 |
| | Other Administrative Expense | 319 |
| 20 | INSTRUCTION | |
| | Salaries of Supervisors | 321 |
| | Salaries of Principals | 322 |
| | Salaries of Teachers | 323 |
| | Clerical Salaries | 324 |
| | Teaching Supplies and Expense | 325 |

(Continued, P.150)



From P.149 (continued).

| | | |
|---|---|---|
| | Tuition Expense | 326 |
| | Textbooks | 327 |
| | School Library | 328 |
| | Other Instruction Expense | 329 |
| 30 | OPERATION OF SCHOOL PLANT | |
| | Wages | 331 |
| | Fuel and Utilities | 332 |
| | Operating Supplies and Expense | 333 |
| | Other Operating Expense | 339 |
| 40 | MAINTENANCE OF SCHOOL PLANT | |
| | Maintenance of Grounds | 341 |
| | Maintenance of Buildings | 342 |
| | Maintenance of Furniture and Equipment | 343 |
| | Other Maintenance Expense | 349 |

DIRECTION: After checking your chart of accounts, go to P.151.

From P.150. You now know how to classify school accounts according to fund, function, and object. In terms of school practices, a final way in which school accounts are classified is according to financial character. In other words, is the item primarily a current or long term asset, a current or long term liability, or an equity? These describe position of the district as the financial character. The other type of character classification you have previously learned: those relating to the flow of values in and out of the various funds. Since character has already been coded according to operations, there remains the problem of coding the position accounts. Such a classification could be:

| Character Series | Character Item | Code Series |
|---|---|---|
| 000 | ASSETS | |
| | Cash (Bank) Assets | 010 |
| | Receivables | 020 |
| | Inventories | 030 |
| | Work in Process (an inventory of labor, material, and overhead costs applied to such objects as sidewalks or other improvements or additions that are in the process of being constructed) | 040 |
| | Prepayments | 050 |

(Continued, P.152)



From P.151 (continued).

| | | |
|---|---|---|
| | Budgets and Authorization Control | 060 |
| | Capital Assets | 070 |
| 100 | LIABILITIES AND EQUITIES | |
| | Current Warrants Payable | 110 |
| | Payroll Deductions | 120 |
| | Loans Payable | 130 |
| | Budgetary Control | 140-150 |
| | Various Other Equities | 160-180 |
| | Surplus | 180 |

Delay your puzzling for now about such items as 060, Budgets and Authorization (Assets), and 140-150, Budgetary Controls (Liabilities and Equities). These will be considered later. Now let's review major code series as they have been assigned in this chapter: 200 General Fund, Revenues has been filled in as an example.

| Code Series | Fund and/or Character | Code Series | Fund and/or Character |
|---|---|---|---|
| 000 | | 400 | |
| 100 | | 500 | |
| 200 | General Fund, Revenues | 600 | |
| 300 | | 700 | |



DIRECTION: After completing the above, go to P.155 to check your answers.

From P.153 Review the ways in which you now know how to classify school accounts. First, you know how to classify school accounts according to fund and character: General, Building and Site, and Debt Retirement Funds, i.e., position (assets--000 series--liabilities and equities--100 series); flow-in of revenues and receipts (200, 400, and 600 series); flow-out of expenditures and expenses (300, 500, 700). You know how to classify accounts according to source or according to object. Thus, revenue or receipts may be coded according to source such as property tax (20), grants in aid (30), services (40), and other revenue (50); expenses or expenditures, according to object or function (Administration, 10 or Instruction, 20).

The above represent traditional methods for classifying and coding school accounts. One final method must be recognized which for management control may become one of the most important ways of classification: according to unit of responsibility.

Frequently, when unit classification is used, the unit is the building over which a principal is responsible. Increasingly a building unit code will be used, for example, on a device to fix responsibility for...(Continued, P.154).



From P 153 (continued). .the care and use of "fixed" property: the building, its equipment, and furnishings. Many school districts have in the past overlooked the necessity for controlling these values of "fixed" assets once they have been converted to a relatively fixed position from cash. The method of funds accounting has overemphasized the stewardship function of handling cash funds at the expense of such accountability.

One additional thought must be expressed here: Accountability for HOLDING (position) fixed property and for USING fixed property (flow of values) as these values are applied in educating youth is becoming recognized as important. The assumptions of school accounting in the past distorted the recorded values of "fixed" values both as to position and flow. For example, a purchase of 35 typewriters to replace 35 similar machines in a typewriting laboratory costs $7,000. Assume that the value of these typewriters that have a useful life of five years is considered to flow out of the district in the year in which they are purchased. What effect will such an assumption have on the recorded cost of educating youth for the fiscal period in which they are bought--a. overstated or b. understated the cost?

DIRECTION: Check your answer on P 156.

From P.152. Your answer should be:

| Code Series | Fund and/or Character |
|---|---|
| 000 | Assets |
| 100 | Liabilities and Equities |
| 200 | General Fund, Revenues |
| 300 | General Fund, Expenditures |
| 400 | Building and Site Fund, Revenues |
| 500 | Building and Site Fund, Expenditures |
| 600 | Debt Retirement, Revenues |
| 700 | Debt Retirement, Expenditures |

DIRECTION: After you have checked and corrected your answers, go to P.153 to begin your review of some of the ideas you have learned.



From P.142. Your answer should be: a. Overstated. The cost during the fiscal period in which you purchased the typewriters is overstated. In future periods, the cost is understated. Of course, the distortion that occurs in a small transaction of $7,000 may be of minor consequence when dealing with a budget of $5,000,000 in a year. Still it is a distortion. Many such distortions could add up to a significant impairment of the data collected and classified in school accounts. But this is another story that must await Chapter 4.

Let's take one final look at what you now know about the classification of school accounting data. First, you learned about a school fund from Aunt Hattie's pots (P.111-112). You now know the funds generally required to account for a total school district's values (P.115). You've learned about and practiced using a new tool of analysis--journalizing (P.126). You previously knew how to classify funds according to position and flow (P.131). In this chapter, you learned how to set up a chart of accounts: revenues, you coded according to source (P.137); expenditures, according to function and to object (P.146); and all values according to character (P.151). Also, a classification according to unit of responsibility was discussed--such as a building unit for which a principal is responsible. (Continued, P.157)

From P.156 (continued).

Almost unheard of in the sixties in school accounting were more sophisticated costing systems, such as those practiced in business. Because of an increased flow of federal grants to school districts, however, modifications for collecting various kinds of cost data have been imposed. And the recent miniturization of computers places on the threshhold for most schools improvements of data collection for management control and reporting.

A system of school accounting is in a state of flux. The import of the discussion on current classification practices is prerequisite to understanding limitations in the system of school accounts--limitations that can be minimized in our technological times provided we know what they are and what they mean. Discussion of some of these limitations is the content of Chapter 4.

DIRECTION: Go to P.158 to test yourself on Chapter 3.



From P.157. Selftest on Chapter 3.

THE CLASSIFICATION OF SCHOOL ACCOUNTING DATA

DIRECTION: Answer the questions on the next two pages. Then go to P.160 to correct your work.

1. Six types of funds usually used in school accounting are: a..... b..... c..... d..... e..... f.....

2. You would expect to find money received from the sale of bonds for a new building recorded in what fund?

3. You would expect to find money in the cafeteria received from sale of prepared food and used to buy more food in a Cafeteria Fund which is a type of ..... fund.

4. You would expect to find a new but completed building accepted by the district from the contractor accounted for in the a. Building and Site Fund, b. Debt Retirement Fund, c. Capital Asset Fund.

5. The consolidated position of a school district could be reflected by combining position information from all funds in a(an) .....

(Continued, P.159)

6. You would expect to find information in a book of original entry to be recorded in: a. chronological order, b. specified accounts.

7. In account 231, as described, the "31" of the number is a classification according to: a. fund, b. source, c. function, d. object, e. character.

8. In account 341, as described, the "41" of the number is a classification according to: a. fund, b. source, c. function, d. object, e. character.

9. Accounts in the "000" series are classified according to: a. fund, b. source, c. function, d. object, e. character.

10. Failure to recognize in the accounts an expense value used in educating pupils during the period in which it is used does what to the cost figure reported for educating pupils? a. overstates? b. understates?

Answers, P.160.



From P.159. Key to Test - Chapter 3.

| | Review Page |
|---|---|
| 1.a. general or general operating, b. building and site, c. internal, d. debit retirement, e. revolving, f. capital | 115 |
| 2. Building and Site Fund or Bond Fund | 112 |
| 3. Revolving Fund | 122 |
| 4. Capital Asset Fund | 116 |
| 5. Balance Sheet | 126 |
| 6. Chronological Order | 129 |
| 7. b. Source | 131 |
| 8. c. function and d. object | 139,146 |
| 9. a. fund and e. character | 151,152 |
| 10. b. understates | 154,156 |

## Factors in Evaluation of Classified School Accounting Data

In Chapter 3, you learned about funds and the various bases for classifying school accounting data. The purpose of Chapter 4 is to consider factors in evaluating these data.

To evaluate school accounts, the data must first be appraised in terms of the reasons dictating their collection. These reasons are not mutually exclusive or discrete. Yet, some may not be compatible with others. For example, contrast the legal purpose for specifying school accounts with the needs of local school management for accounting data.

The legal reason for school accounts grows out of requirements of the state legislature or its representative to keep records of certain funds to prove that legal mandates have been met. Thus, the framework of school accounts is imposed upon boards of education as a means of proving fidelity in the handling of funds. Because of this, once a school building has been legally obtained through funds and proved to be so in the accounts, the legal interest of the state has usually been satisfied and further accounting for the building forgotten for that purpose. (Continued, P.162)



From P.161 (continued). From the standpoint of school district management, however, controlling the value of a building as it is used in educating pupils is a local responsibility.

If the local responsibility is to be recognized in accounting data, the system of accounts will need to be arranged to meet that purpose. Thus, good school district management dictates evaluation of the flow in, position, and flow out of ALL values. Good management would of necessity encompass proof of fidelity or stewardship in using funds. But would data needed for proof of fidelity necessarily include all data that are needed for good management? a. Yes or b. No.

DIRECTION: If you answered a, go to P.163; b, go to P.165.

From P.162. Your answer: a. Yes. Well, let's consider your answer. Certainly, good management means controlling the receipt and expenditure of funds to prove their legality. Yet, good management must also include controlling the use of values purchased with those funds.

It is often easier in a school district to dissipate $1,000 worth of supplies than it is to misappropriate a penny of cash. Why? Penny wise and thousand-dollar foolish? This condition usually exists in those school systems that fail to realize a management responsibility to control all (not just monetary) values that flow in, remain awhile, and flow out of a district.

DIRECTION: Return to P.162 to follow the other direction.



From P.169. Your answer: a. To provide a state authority with uniform data for comparing school costs. The latitude of choice in this question is certainly narrower as between the state and the local district. The states vary in their public policy for delegating decision making to local school authority. At times, this withholding of authority reaches even the operating level. In one state, for example, all local school purchases are made by a state central purchasing agency.

Yet, in all states, a great deal of authority for operating a school district--within public policy--is delegated to local boards of education.

DIRECTION: Because of the above reasoning, return to P.169 to follow the other direction.

From P.162. Your answer: b. No. You're RIGHT! A dollar of value in a building is just as important as a dollar of funds originally used to build that building. A dollar of supplies wasted is just as much loss to the district as a dollar stolen from petty cash. The implication is clear: for good management purposes, a district's accounting data will need to go beyond minimum legal requirements dictated to prove fidelity in handling funds.

Other reasons held for a system of school accounts are: a. to provide a uniform basis for comparing financial data among the school districts of a state or the nation; b. through budgetary procedures, to provide a basis for legally obtaining funds; and c. to provide financial reports and reporting to various community publics.

Other reasons variously held--such as safeguarding funds; planning, organizing, controlling, and evaluating the economic values of an educational program; providing data for fiscal policy determination; proving legal fidelity in obtaining and employing funds; or determining fiscal responsibility--are reasons of good management for the type of accounting data collected and used.

It is a bias of this book that boards of education want and need a system of school accounts that will provide accounting data for good management. Yet, other purposes may becloud this overriding reason for keeping accounts...(Continued, P.166)



From P.165 (continued)...and sometimes even hinder their collection for management purposes.

Consider the desirable goal of uniformity in the classification of school accounts nationwide.

In the field of school accounting, the desirability of a uniform classification of school accounts, as among the various public school districts, has influenced the kinds of accounts required by the states. Thus, states have revised their requirements for school accounts to agree with the recommendation of the United States Office of Education.* The reasons for uniformity are obvious; but, of the following two reasons, which is more important?

a. To provide nationwide data for comparison of school costs.
b. To provide local school districts with a basis for comparing costs.

DIRECTION: If a, go to P.167; if b, go to P.169.

*Federal Handbook II (revised), FINANCIAL ACCOUNTING, CLASSIFICATIONS AND STANDARD TERMINOLOGY FOR LOCAL AND STATE SCHOOL SYSTEMS.

From P.166. Your answer: b. To provide nationwide data for comparison of school costs.

In a choice of these two value judgments, your answer must be made in terms of the use of the data. Fortunately, in the United States, we do not have a central authority to use data as these to control, fix responsibility, and impose decisions on the states and their local districts. Granted, of course, that the compiled data would not be available without a central agency collecting them, the data are too remote from the point of decision making to consider this reason as the more important of the two given.

DIRECTION: Return to P.166 to follow the other direction.



From P.171. Your answer: a. Yes. In a roundabout way, you may have a reason for selecting "Yes" as your answer. If you knew that revenues and costs in District Y were on an 11- or 13-month basis, these could be factored as eleven-twelfths or thirteen-twelfths to compare the costs of the two districts. But, if the time factor is unknown, do you now have a basis for comparing? Not in a meaningful way.

DIRECTION: Return to P.171 to follow the other direction.

From P.166. Your answer: b. To provide local school districts with a basis for comparing its costs. Certainly, you're RIGHT! This is a management reason. Granted, of course, some central agency must be responsible for collecting those uniform data. If comparison and evaluation are to result in change, the local district level is closer to the point where decisions about schools are made; and, thus, changes can be initiated, controlled, and evaluated.

You are right, though, if you observed that the state is the unit of authority for providing a public school system. Thus, the reasons for uniformity should be reconsidered in terms of these two units, state versus local district. So, you are asked again to make a selection as between two given reasons for uniformity in school accounts. Which is more important?
a. To provide a state authority with uniform data for comparing school costs.
b. To provide local school districts with a basis for comparing school costs.

DIRECTION: If a, go to P.164; if b, go to P.171.



From P.173. Your answer: a. Journal entry made at the time of the tax levy on District X's books:

| | | | |
|---|---|---|---|
| (Dr.) | 021 Current Taxes Receivable | $1,000,000 | |
| (Cr.) | 221 Current Taxes (Revenue) | | $1,000,000 |

The problem posed is to label the entry AT THE TIME OF THE TAX LEVY on the books of School District X. Remember, School District X records its transactions on a cash basis, i.e., when cash is received. Was any cash received? Not yet. Fortunately some states have eliminated the "cash basis" so that even District X would now have to recognize in its books the above transaction as a receivable accrued to the District.

DIRECTION: Return to P.173 to follow the other direction.

From P.169. Your answer: To provide local school districts with a basis for comparing school costs. AGREED. This agreement doesn't rule out the importance of uniform data at the state level, either. Such data are important for a state authority to evaluate public policy. Yet, the selection of the above answer is in keeping with an important management concept: data collected are valuable to the extent that they parallel authority and responsibility. Even though the state is the unit of organization, the comparability of accounting data for management purposes should be at the local school level when decisions are made there.

Uniformity, a desired goal in comparability of data, is but one factor. Other factors of evaluation such as time must be held uniform or constant, too, if reliable comparison is to result. Suppose that School District X measures its school revenues and costs in terms of one-year fiscal period. Suppose that School District Y measures its revenues and costs on an 11-month, 13-month, or unknown period of time. Are the accounting data comparable? a. Yes or b. No.

DIRECTION: If a, go to P.168; b, go to P.172.



From P.171. Your answer: b. No. CORRECT. If you know the time in District Y to be eleven-twelfth or thirteen-twelfths of District X's 12-month fiscal period, these factors provide a basis for comparison. If you do not know, however, any assumption made to equate the two districts in terms of time provides an unknown error factor that causes the data to be incomparable.

Such an unknown factor of time is present in the cash basis of accounting for school values. A basic assumption of a cash basis of accounting is this: accounting recognition of a transaction is made when cash is received or cash is paid out. Thus, a school district in which a local property tax of a million dollars is legally levied and legally collectible would not recognize the accrued value to the district until the cash is received. The difference? The accrued basis recognizes the value of income when vested in the district or an expense when incurred regardless of when cash is received or paid.

Given two school districts, with identical tax levies, examine the accounting difference in recording on a cash versus an accrual basis. (Continued, P.173)

From P.172 (continued). Assume the tax levy for both districts to be one million dollars. District X is on the cash basis. District Y is on the accrual basis. District X's journal and accounts at the time of the tax levy would be which of the following, "a" or "b"?

a. Journal entry made at the time of the tax levy in District X's books:

| | | |
|---|---|---|
| (Dr.) 021 Current Taxes Receivable | $1,000,000 | |
| (Cr.) 221 Current Taxes (Revenue) | | $1,000,000 |
| To record the levy of current property taxes | | |

b. No journal entry is made at the time the property tax is levied.

DIRECTION: If your answer is a., go to P.170; b., go to P.174.



From P.173. Your answer: b. No journal entry would be made at the time the property tax is levied. YOU'RE RIGHT. School District X, reporting on a cash basis, will recognize the $1,000,000 of property taxes in its books only when the cash is received.

If during the fiscal year $800,000 of current taxes are received by District X, the effect in journal entry form at the time the cash is received is:

| | | |
|---|---|---|
| 010 Cash (Bank) Assets | $800,000 | |
| 221 Current Taxes (Revenue) | | $800,000 |
| To record the receipt of current taxes collected | | |

Obviously, the current asset (taxes receivable) is understated by $200,000; and the current revenue, by the same amount. Note that this distortion does not affect the proof of fidelity in handling funds. It will, however, affect management decisions not to recognize this flow in of value when it accrues.

The proponents of the cash basis say, "Isn't it reasonable to assume that we will collect in any one year approximately the same amount of delinquent taxes which will make the net effect on revenues the same?" (Continued, P.175.

From P.174. Well, maybe. On a cash basis in the fiscal period under question, School District X would record:

| | | |
|---|---|---|
| 010 Cash (Bank) | $1,000,000 | |
| 221 Current Taxes (Revenue) | | $800,000 |
| 222 Delinquent Taxes (Revenue) | | 200,000 |
| To record current and delinquent taxes collected during the fiscal period | | |

Such an assumption, even though true, fails to recognize what you know about the duality of the accounting transaction. Reporting on a cash basis under these conditions fails to consider the position of District X. How? a. Assets are overstated by $200,000; b. Assets are understated by $200,000, or c. I don't get it.

DIRECTION: If your answer is a., go to P.176; b., go to P.180; c., go to P.178.



From P.175. Your answer: a. Assets are overstated by $200,000.

But how could they be? Has there been any recognition of the asset that is due the school district but has not yet been received? In fact, on a cash basis, the $200,000 not collected but due is not even recorded in the books until the cash is received.

DIRECTION: Return to P.175 to follow a better answer.

From P.183. Your answer: b. The expenses for the period ending June 30, 1983, are understated using a cash basis of accounting.

Well, let's look at it another way. From the T accounts for the period ended June 30, 1983, you have determined that you actually did not have an expense accrual. However, on a cash basis, a journal entry as observed in the accounts must have been made on July 25, 1982, the date of cash payment, as follows:

| | | |
|---|---|---|
| (Dr.) Boiler Repair Expense | $5,000 | |
| (Cr.) Cash (or Bank) | | $5,000 |
| To show on the date of July 25, 1982, the payment of the boilder repair contract completed on June 25, 1982. | | |

You're reporting a $5,000 expense by this journal entry for the period ended June 30, 1983. But did the expense occur during the 1982-83 period? No. So you are actually overstating, not understating, the expense for the fiscal period ended June 30, 1983.

DIRECTION: Return to P.183 to follow the other answer.



From P.175. Your answer: c. I don't get it. That's O.K. You will. Could it be that you missed the key point of difference as between the cash and accrual basis of accounting?

Do you know that in the cash basis of accounting, recognition of the transaction in the books is made only when the actual cash is received? On the accrual basis, recognition is made at the time the District is vested or has the rights to the revenues. Thus, expenses are recognized when they are incurred or accrued, not when they are paid. Revenue is recognized when it has accrued and is RECEIVABLE by the District, not when it is RECEIVED.

DIRECTION: Return to P.175 to follow a different answer.

From P.183. Your answer: a. The expenses for the period ending June 30, 1983, are overstated. GOOD! Now you're beginning to get it.

The expense actually accrued during the period ended June 30, 1982. But the transaction was recognized as occurring during the next period or the period ending June 30, 1983. In this latter period, the books show $5,000 more expense than actually did occur. Therefore, the expenses are overstated.

DIRECTION: Return to P.180 to reread and follow the correct direction.



From P.175 or P.179. Your answer: b. Assets are understated by $200,000. RIGHT. Under such conditions, balance sheet, i.e., "position," accounting in any meaningful way becomes impossible.

By the same token, suppose an item of purchase, say a contract to repair the boilers for $5,000, is completed on June 25, 1982, and paid for on July 25, 1982, the next fiscal period. In terms of both position and flow, what effect does a cash basis of accounting have on the data reported in the period ended June 30, 1982?

a. Liabilities are understated $5,000 and expenses are understated a like amount in the fiscal period ended June 30, 1982.

b. Liabilities are overstated $5,000 and expenses are overstated a like amount in the fiscal period ended June 30, 1982.

DIRECTION: If you answer a, go to P.184; b, go to P.182.

From P. 184. Your answer: a. At the time the expenditure is made. You're not reading carefully enough. Furthermore, you're failing to recognize the duality of transactions.

If you expend cash, what effect does this have on your fundamental equation? First, you know that you decrease asset cash by crediting it. But you also know from your study of Chapter 1 and 2 that you could either decrease a liability by debiting it, decrease equity (or increase expense) by debiting it, or increase another asset by debiting it. If you increase another asset, your expenditure may never become an expense. For example, a piece of land purchased as a building site may not lose its value through use in educating pupils.

DIRECTION: Return to P.184 to restudy the question and follow the other answer.



From P.180. Your answer: b. Liabilities are overstated $5,000 and expenses are overstated a like amount in the fiscal period ended June 30, 1982. Come now, you're not thinking.

The repair occurred before June 30 but was recorded as though it occurred after June 30. On June 30, you failed to show $5,000 owed to the contractor, and you didn't show an expense of $5,000 that had actually occurred. Perhaps a diagram of what happened in actuality compared with the way it was recorded will avoid such mistakes.

What accrued and would be recorded on an accrued basis in the two fiscal periods:

Fiscal Period

July 1, 1981-June 30, 1982

| Boiler Repair (Expense) | |
|---|---|
| $5,000 | |

| Contractor (Liability) | |
|---|---|
| | $5,000 |

July 1, 1982-June 30, 1983

| Boiler Repair (Expense) | |
|---|---|
| -0- | |

| Contractor (Liability) | |
|---|---|
| | -0- |

(Continued, P.183)

From P.182 (continued).

What would be recorded on a cash basis:

| July 1, 1981-June 30, 1982 | | July 1, 1982-June 30, 1983 | |
|---|---|---|---|
| Boiler Repair (Expense) | | Boiler Repair (Expense) | |
| -0- | | $5,000 | |
| Contractor (Liability) | | Contractor (Liability) | |
| | -0- | | $5,000 |

By T accounts, you have proved that the actual expense and liability were incurred before June 30, 1982, but were not recorded in the books on a cash basis before June 30, 1982. Now how about 1983?

For the fiscal period ending June 30, 1983, expenses recorded above on a cash basis are: a. Overstated in the books, or b. Understated in the books.

DIRECTION: If your answer is a, go to P.179; b, go to P.177.



From P.180. Your answer: a. Liabilities are understated $5,000 and expenses are understated a like amount in the fiscal period ended June 30, 1982. GOOD.

Now, let's make a differentiation in terminology: "expenditure" and "expense." An expenditure occurs whenever there is a release by the school district of cash or its equivalent to satisfy a debt. An expense occurs when a value flows out of the district or is used in the performance of its function--the education of pupils. By definition, then, when does an expenditure become an expense of a school district? a. At the time the expenditure is made. b. At the time the object for which the expenditure is made is used in educating pupils.

DIRECTION: If your answer is a, go to P.181; b, go to P.186.

From P.186. Your answer: b. Revenue.

Within the cafeteria operation, itself, money received for lunches sold would constitute revenue and would "revolve" to pay the expenses of cafeteria workers' salaries and of food. From a total school view, though, such funds do not flow into the district for the purpose of educating pupils. Therefore, a different answer is appropriate.

DIRECTION: Return to P.186 to follow the other direction.



From P.184. Your answer: b. At the time the object for which the expenditure is made is used in educating pupils. You're RIGHT. The flow out of value from a district in the performance of its functions determines when there has been an expense.

A similar distinction can be made between the terms "receipt" and "revenue." A receipt becomes a revenue when the value accrues to the district in the performance of its primary function, the education of pupils. Note that a receipt, as an expenditure, may precede, occur at the same time, or follow the accrual of a revenue value. We have thus far considered the differentiation of receipt versus revenue and expenditure versus expense in terms of the total school enterprise. Such a view is proper and fitting; sometimes, though, it is made more difficult to do because of the piecemeal way in which the funds of a school district must be kept. For example, in terms of educating pupils, is the money collected from students for hot lunches in the cafeteria a receipt or a revenue? Answer a. Receipt or b. Revenue.

DIRECTION: If your answer is a, go to P.189; b, go to P.185.

From P.192. Your answer: a. Yes. CORRECT. Essentially, the generalization is a fair one to make. A state regulation for a system of school accounts that provides but a minimum standard in obtaining and disbursing current funds is oriented toward current funds that flow in and out of the district.

Good management becomes a local matter. Good school board management must ensure fidelity to legal mandates, but good management is more than ensuring fidelity. Among the tools of good management is a system of school accounts that sorts the flow in, position, and flow out of values in the district in terms of time (the fiscal period). (Continued, P.188)



From P.187 (continued). It's time to review. Check yourself on the following questions. Are they true or false? Circle your answer.

1. Accounting data classified uniformly throughout the country provide a local school district with a reliable basis for comparing costs. True or False.

2. Central authority (a legislature or its chief state school official) previously prescribed a system of school accounts oriented to proving fidelity in the trust delegated to boards of education. True or False.

3. A minimum system of school accounts which permits a cash basis of accounting ensures good management of schools. True or False.

4. A cash basis of accounting recognizes and separates the flow in, position, and flow out of values in terms of time. True or False.

DIRECTION: Check your answers on P.194.

From P.186. Your answer: a. Receipt. You're RIGHT. From the standpoint of educating pupils, hot lunch money collected from students in the cafeteria is not a revenue except indirectly. To the cafeteria fund, however, it is. The money collected revolves to pay salaries and food costs in the cafeteria. But operating the cafeteria is not the school's primary reason for being.

In the same way, the proceeds from a sale of a bond issue would, in the Building and Site Fund, be revenue of that fund. Yet, from the standpoint of the total school enterprise, the proceeds of a sale of a bond issue could not be so considered. The costs expended in constructing the building would, in the Building and Site Fund, be expenses of that fund. And upon completion of the function for which the fund was set up, the Building and Site Fund is closed; and the asset or position values of the new building are transferred to the Capital Asset Fund.

Thus, after a $2,000,000 building has been accepted by the school district, you would expect to find this $2,000,000 value recorded in the ..... Fund.

DIRECTION: Turn to P.191 to check your answer.



From P.197. Your answer: b. The actual expenditure was all that was needed. Perhaps you're jumping at a conclusion.

The evidence does not warrant the answer. If your answer were right, you could also conclude reasonably (or unreasonably) that no expenditure was needed.

DIRECTION: Return to P.197 to follow another answer.

From P.189. Your answer should be: Capital Asset. Thus, School District X now has transferred to its Capital Asset Fund a $2,000,000 resource (the value of the completed building).

We estimate this $2,000,000 building has use value in educating pupils over the next forty years. Actually, the value that is $2,000,000 will in forty years dwindle to zero or salvage value. The value becomes an expense, a portion each year, as the building is "used up" or depreciates in the education of pupils. In any one of the forty fiscal periods in which the dwindling of value occurs, it would be difficult to say with certainty what proportion of the value of the building is an expense of that year, i.e., has flowed out of the district through the educational program. That the values do flow out, though, is an actuality that cannot be escaped.

Accountants have developed numerous ways of estimating the wasting away of values of fixed assets such as buildings to re-evaluate the residual value of the asset and the consequent value of the expense for educating pupils. Relatively recently in school accounting has depreciation (an estimate of wasting away or wearing out) cost been allocated to the fiscal period in which it occurs. (Continued, P.192)



From P.191 (continued). Previously (and still is in some districts) it was deemed unnecessary to reflect in the accounts a reasonable estimate of the present depreciation value of school plant. In other words, a building that cost $2,000,000 twenty years ago is on the books in the Capital Asset Fund as a $2,000,000 asset today.

Recognize, then, the way the records are kept and recognize, too, such unit figures as "cost per pupil" compiled in each fiscal year by schools. What effect does failure to account for depreciation of school buildings have on reported "cost per pupil" computed? a. Overstates or b. Understates.

DIRECTION: If your answer is a, go to P.196; b, P. 193.

From P.192. Your answer: b. Understates. CORRECT. Failure to account for depreciation in a fiscal period provides a community with a rosier picture of educating pupils than is true in actuality. This failure provides a rosier picture, that is, until the time the community is asked to authorize a bond issue for building a new building.

Schools are not in the business of making a profit, to be sure. They are in the business of using wisely the wherewithal purchased to educate pupils; and a dollar of value flowing out of the district from the use of a building is just as important as a dollar of value expended currently for teachers' salaries, instructional materials, or custodial salaries. The failure to account for the flow out of values with the time of use may serve to undermine confidence of taxpayers in the use of funds by schools.

In view of the discussion, would a fair generalization be this:

School fund accounting that does not recognize depreciation as a cost is oriented toward the current funds that flow in and out of the district? a. Yes or b. No.

DIRECTION: If your answer is a, go to P.187; b, go to P.195.



From P.188. Answers to review questions.

1. FALSE. Uniformity of classification is not enough. There must be, for example, uniformity of time in collecting those data which a cash basis of fund accounting fails to provide.

2. TRUE. The purpose of fund accounting previously was primarily oriented to proving the legality of a board's actions in securing and disbursing funds.

3. FALSE. Proof of fidelity imposed in a minimum system of school accounts is a part of good management. Yet, good management decisions must be based on better data than those required for this limited purpose.

4. FALSE. The cash basis assumes that when values are received through "cash" these values are fixed in the district or these values flow out of the district as cash is disbursed.

DIRECTION: Go to P.197 to continue the discussion of time as a factor in evaluation as budgets are considered.

From P.193. Your answer: b. No. Well, consider this: State legislatures or their representatives regulate the receipt and disbursement of funds which they (legislatures) permit schools legally to take in or pay out. The concern of the legislature (or central authority) is fidelity to the trust imposed on boards, i.e., the authority wants to know whether boards of education have met their legal obligations in obtaining and disbursing funds. Fund accounting previously prescribed minimum standards to ensure control of the legal trust imposed.

Fund accounting, so specified, cannot regulate wisdom in using the funds to educate pupils. Wisdom in use of funds becomes a local management responsibility with voters presumably electing to boards those who will see that wise expenditures are made and wise use of the objects or services purchased. Yet, minimum standards of accounting set by a state often become maximum standards. Under such conditions, it would be easier to dissipate a thousand dollars worth of supplies with impunity than to misappropriate one penny of cash. This is penny wise, thousand-dollar foolish; but it's the way fund accounting formerly operated when judged from a management viewpoint. Thus, you can see from this line of reasoning that the generalization as made is a fair one.

DIRECTION: Return to P.193 to reread the generalization and proceed.



From P.192. Your answer: a. Overstates. The asset value of the building remains in the books at its original cost value of $2,000,000. Right? An estimate of the use value or the value flowing out of the district into the education of pupils, then, is not recognized as an expense of educating pupils in any fiscal period. If the flow out of value from use is an actual cost but not recognized in the books as such, how can you say that the costs in the books are overstated?

DIRECTION: Return to P.192 to follow the other direction.

From P.194. You are here because you have checked your answers to the review questions about time as a factor of evaluation. Closely related to the question of time is the budget in the evaluation of school accounting data, the topic of the following discussion.

If planned for purposes of evaluation, a budget provides a projected standard for school operations that can become one of management's most effective tools of financial evaluation.

The variance between estimated or "standard" and actual revenues or costs becomes a reason for asking, "Why?" In this view, then, the difference between $20,000 expended for some purpose when $30,000 was authorized or planned in the budget indicates a variance of $10,000 and becomes a signal to management that: a. The budget was incorrectly estimated; b. The actual expenditure was all that was needed; c. The variance deserves investigation.

DIRECTION: If your answer is a., go to P.198; b., go to P.190; or c., go to P.200.



From P.197. Your answer: a. The budget was incorrectly estimated.

Well, an incorrect estimate is one possibility. With the problem as posed, it is equally possible that the budget estimate should have been $40,000 instead of $30,000 or $20,000. It's equally possible that the spending should have been some other figure.

DIRECTION: Return to P.197 to select one of the other answers.

From P.201. Your answer: a. B minus 2 1/2%. You mean you would seek funds at a figure that could be 5 percent lower than what you believe actual needs may be?

Tear up that man's contract! He may be the taxpayer's friend, but he's willing to penalize the educational program by asking for funds that could be 5 percent less than the needed cost of educating pupils.

DIRECTION: Return to P.201 to follow the other direction.



From P.197. Your answer: c. The variance deserves investigation. CORRECT. The reason for the discrepancy is unknown.

Yet, by calling attention to it, management can investigate. Thus, a well-known principle of management-by-exception operates to let those in control know that something is not what was expected in the budget or "out-of-line" and needs investigation.

In terms of time, a budget or projected financial plan compared with the later performance of the plan is a valuable management tool. Too often, though, this management tool is not utilized for such a purpose because of other reasons for providing a school budget. For example, an authorized school budget is often the legal basis for levying taxes or participating with other governmental units in the sharing of taxes.

Granted that the budget must be carefully projected in terms of needs for educating pupils, the budget still is an estimate, and the error of estimate may be as much as 5 percent, say; or, budget is plus or minus 2 1/2 percent of actual. With a 5 percent error factor, in other words, the actual may be 2 1/2% below or 2 1/2% above budgeted amounts. (Continued, P.201)

From P.200 (continued). Recognizing the error of estimate inherent in seeking budget, is it reasonable to say that a budget used as a legal basis for obtaining funds would tend to be: a. B minus 2 1/2%; or b. B plus 2 1/2%.

DIRECTION: If your answer is a, go to P.199; b, go to P.204.



From P.204. Your answer: A = L + E + (R - Ex). Perhaps you haven't observed mirror-writing recently.

Why don't you look at the equation in a mirror and your answer will be different.

DIRECTION: Return to P.204 to follow the other direction.

From P.210. Your answer should be: Debit.

Now if the estimated revenues in a budget of School District X amount to $3,500,000 and the authorized expenditures are equal to that amount, combine what you have just learned in the last two pages. The journal entry to record the above budget is:

| | | |
|---|---|---|
| (Dr.)..... | $3,500,000 | |
| (Cr.)..... | | $3,500,000 |

To record the approved budget in the books of School District X

DIRECTION: Check your entry on P.206.



From P.201. Your answer: b. B plus 2 1/2%. Certainly the budget would tend toward the higher estimate. If you know that your estimate may be at least 2 1/2 percent less than your actual needs, you would be selling your students short if you attempted to have available less than sufficient to meet those needs.

To follow this line of reasoning, suppose the budget were to become a selling device. Suppose some allocating authority were to divide available funds among schools and other governmental units participating in available property taxes. The success in obtaining an allocation to meet the needs for educating pupils might well become a matter of proving to such authority that B plus 2 1/2% requested were B minus 2 1/2% (or grant at least that there would be a tendency among some local school representatives to operate in such a direction).

The point of the discussion is this--the effectiveness of the budget as a tool of evaluation may be limited when other reasons than good management dictate its preparation. (Continued, P.205.)

From P.204. Let's turn our attention to accounting for a budget.

Budget Accounting or the Future Through a Looking Glass. Accounting for a school budget can best be understood as a mirrored view of an educational plan converted to economic terms.

Thus, looking through a mirror at the fundamental equation, A=L+E+(R-Ex) you would expect to see:

a. (xE - R) + E + J = A

b. A = L + E + (R - Ex)

DIRECTION: If your answer is a, go to P.208; b, go to P.202.



From P.203. Your answer should be:

| | | |
|---|---|---|
| (Dr.) Estimated Revenues | $3,500,000 | |
| (Cr.) Authorized Expenditures | | $3,500,000 |
| To record the approved budget in the books of School District X | | |

Obviously, each of the estimated revenues and authorized expenditures of a budget would be posted to each of the separate accounts at the beginning of a fiscal period, rather than a lump sum entry such as illustrated. Throughout the period, the separate budget entries provide the basis for comparison with actual receipts or actual expenditures in the individual accounts.

How helpful are these budget figures, the mirror image of receipts and expenditures to come, in evaluating a school's operations? If the purpose is for evaluation by management, it is worth repeating. The budget can be one of the most valuable of management tools as the plan provides a standard against which actual operations can be measured. (Continued, P.207.)

From P.206 (continued). But now let's turn our attention to another factor in evaluating data in school accounts--the dollar as a unit of measure.

School accounting data are collected in terms of dollar values. In other words, the yardstick of measurement in all accounting, not just school accounting, is the dollar. The stability of this yardstick is the question: Any elasticity in the yardstick must be recognized if the yardstick is to be useful in evaluation.

"A dollar is a dollar" is a mundane but frequently used expression. But is it true that a 1940 dollar is a 1960 dollar, a 1980 dollar, a 2000 dollar? Answer, a. yes; or b. no.

DIRECTION: If your answer is a, go to P.209; b, go to P.212.



From P.205. Your answer: (x÷ ÷ ÷) + ÷ + ÷ = ÷ . You're CORRECT.

You can expect budget entries in school accounts to be the reverse of those that are made at the time that actual transactions occur. Thus, an expenditure or an expense is recorded as a debit when it actually occurs. But you would record an "Authorized Expenditure," the budget item for future expenditures, by recording it as a ..... (debit or credit?).

DIRECTION: Check your answer on P.210.

From P.207. Your answer: a. Yes.

Apparently you're too young to remember the "good old days" of 1950 when a dollar would buy up to ten times as much as it does today! A course in economics is not required to know that, even though the dollar of today looks approximately the same as it did in 1950, the value in goods or services it will buy is not the same.

DIRECTION: Return to P.207 to follow the other direction.



From P.208. Your answer should be: Credit.

Actual expenditures are debits so the budget or mirrored entry is a credit. Since actual revenues or receipts are recorded as credits when they occur, a mirrored budget entry for "Estimated Revenue" would be recorded as a .....

DIRECTION: Check your answer on P.203.

From P.212. Your answer: b. $1,500,000 less depreciation. You're right that a more realistic picture of the position value of the building would be obtained had a estimate of depreciation been made.

On a "cash" basis, however, no expenditure of "cash" is involved in the wasting away through use. Therefore, the flow out of this cost is unrecognized.

DIRECTION: Return to P.212 to follow the other direction.



From P.207. Your answer: b. No. Of course. And some "old timers" are concerned, incidentally, that pupils today do not know what a dollar "means."

In actuality, though, the pupils of today, unfettered with a knowledge of yesterday's meaning of a dollar, may have a more realistic understanding of today's dollar than their parents or grandparents. But, alas, these babes of today will become the "old timers" of tomorrow who in 2000 will vote tax dollars for schools in terms of their 1980 understanding of the word! But this is another story. Return to the effect of this elastic yardstick on evaluation.

Recall the school accounting for a $1,500,000 completed building in 1940? The value was transferred from a Building and Site Fund to a Capital Asset Fund when the building was accepted by the school district. At what value is the 1940 building recorded in the Capital Asset Fund in 1980 if the district is on a "cash" basis? Answer a. $1,500,000 or b. $1,500,000 less depreciation.

DIRECTION: If your answer is a, go to P.215; b, go to P.211.

From P.216. Your answer: a. 1940 or $60. Perhaps the answer was too obvious for you to select the right one.

Or, perhaps you're the "old timer" who thinks that the 1980 typewriter is only worth $60. Yet, the best evidence of value is current replacement value. Whether you like it or not, if you're purchasing a typewriter in 1985, you're not going to purchase it at the 1960 price.

DIRECTION: Return to P.216 to follow the other answer.



From P.217. Your answer: b. Maintenance was debited $100 and Capital Asset Fund remained unchanged. CORRECT.

The foregoing is the way the entries were made in the accounts: maintenance of the year in which each of the typewriters was purchased was charged for the current purchase price. After the 1980 typewriter was purchased, at what dollar value was the 1980 asset, typewriter, recorded? Answer a., $60 or b. $1,000.

DIRECTION: If your answer is a, go to P.221; b, go to P.218.

From P.212. Your answer: a. $1,500,000. You're RIGHT.

On a "cash" basis, the 1940 value would remain on the books at $1,500,000. Not only is the normal depreciation unrecognized, but the 1940 dollars are reported to an unsuspecting public mixed with 1980 dollars. There is little wonder that some of the unsuspecting public may cry, "They're building a palace"--the cost for a building worth $1,500,000 in 1940 dollars will be $5 million or more in 1980 dollars just to replace in kind!

School districts recognizing this limitation in their school accounts usually carry, separate from their accounting system, current appraisal values of buildings on a replacement cost value basis. While such appraisals are obtained primarily for insurance purposes, these data may be more meaningful to the public than those carried in school accounts. These appraisal values may also provide a more significant base for evaluating the position of the school plant in current dollars, as well as providing a better base for estimating the current cost of educating students. (Continued, P.216.)



From P.215 (continued). School accounts, more than most business accounts, maximize the elasticity of the yardstick used to measure the value of equipment. To illustrate, assume five typewriters, one each purchased in 1940, 1950, 1960, 1970, and 1980 at costs, respectively, of $60, $100, $300, $500, $1,000. Which cost value is most likely to represent today's value? Answer a. 1940 cost or $60 or b. 1980 cost or $1,000.

DIRECTION: If you answered a, go to P.213; b, go to P.220.

From P.220. Your answer should be: (a) debited and (b) credited. To be sure, asset equipment was increased or debited and equity or surplus increased or credited.

In 1950, the problem goes, the typewriter was replaced in kind by a then $100 typewriter. Previously and still in some states where depreciation is not considered because of a cash basis, replacements in kind are charged to maintenance of equipment which is considered to be a current operating cost. Under the foregoing conditions in purchasing the 1950 typewriter for $100, which entry is made?
a. Current maintenance was debited for $60 and Capital Asset Fund was debited $100 to charge off the old typewriter and reflect the new typewriter in the books.
b. Maintenance was debited $100 and Capital Asset Fund remained unchanged.

DIRECTION: If your answer is a, go to P.219; b, go to P.214.



From P.214. Your answer: b. $1000. Well, let's see.

In 1950, $100 was charged (debited) to maintenance as a current operating cost and Capital Asset Fund remained unchanged at $60, the asset value recorded in 1940. In 1960, $300 was charged to maintenance; in 1970, $500; in 1980, $1000. During these years, Capital Asset Fund has remained unchanged--the 1940 value remains to reflect the 1980 asset value.

DIRECTION: Return to P.214 to follow the other direction.

From P.217. Your answer: a. Maintenance was debited for $60 and Capital Asset Fund was debited $100 to charge off the old typewriter and to reflect the new typewriter in the books.

In terms of what should be done, you might think so. Yet, reread the explanation of the problem again and you'll see that this was not done "...replacements in kind are charged to maintenance of equipment, a current operating cost."

DIRECTION: Return to P.217 to follow the other direction.



From P.216. Your answer: b. 1980 cost or $1000. Obviously, you're RIGHT. The best measure of today's value is the cost most current or nearest to today's value.

Yet, let's see how these five typewriters are frequently recorded in school accounts. Assume that 1940 is the first year in which a typewriter was needed in the offices of School District X. A capital outlay had to be budgeted and appropriated in the General Fund. Included there was typewriter, $60. The typewriter was duly purchased, through a debit to the appropriate capital outlay account, and cash credited. Then, in the Capital Asset Fund, the appropriate equipment account was (a) (dr.) or (cr.)? and equity was (b) (dr.) or (cr.)?

DIRECTION: Check your answers on P.217.

From P.214. Your answer: a. $60. You're RIGHT. By charging current expense for the current value of the replacement, the oldest cost remains on the books as the asset. The elasticity of the dollar is enhanced in school accounts since the method permits a mixture of differing dollar amounts. Such a condition further limits the accounts as a tool of management to evaluate school financial matters.

It's time to review. Is each statement true or false? Circle your response.

1. Investigation of the variance as between estimated (budgeted) and actual (receipt or expenditure) is an example of management by exception. True or False?

2. Limitations on utilizing the budget in evaluating variance occur when purposes of determining the budget are other than management purposes. True or False?

3. In entering a budget in the books, the budget accounts represent a duplicate set of accounts in which the budget is recorded in the same way the actual transactions will be recorded when they occur later. True or False?

(Continued, P.222)



From P.221 (continued).

4. The dollar value of a 1940 typewriter is the same as the dollar value of a 1980 typewriter. True or False?

5. On a cash basis, 1940 dollar asset values are recorded instead of 1980 dollar asset values. True or False?

DIRECTIONS: Go to P.223 to check your answers.

From P.222. You are here to check your answers to the review questions.

1. TRUE. Only out-of-line items are observed. If the variance is significant, it becomes the reason for finding out "why."

2. TRUE. As a tool for legally levying taxes, for example, a budget may tend toward the high side of the estimate. As a tool of "selling" it may also be based on other than the best estimate of actual.

3. FALSE. Budget is accounted for as a mirrored or reverse image of what will later occur in the accounts.

4. FALSE. The elastic dollar has changed since 1940 in terms of purchasing values.

5. TRUE. When 1940 assets are replaced in kind, the later values are, on a cash basis, charged to current operating costs--maintenance. The 1940 asset value remains unchanged in the capital accounts.

It is now time to consider the flow of values through a school district in relation to what you now know about school accounts.

DIRECTION: Go to P.224.



From P.223. THE MEANING OF SCHOOL ACCOUNTS? Let's summarize. Values flow in, remain awhile, and flow out of a school district. To manage a school district, significant data are needed about both the position and flow of these values. A community to understand and support its schools needs significant data of, say, what it costs to educate pupils, the flow out of values, which represents the realization of the purpose of the school. It is a reasonable hypothesis that the failure of many communities to support adequately their schools has been influenced by the lack of valid and reliable financial data concerning both the position and flow of values.

A system of school accounts as required by state authority has too often been cast primarily to prove fidelity in the receipt and expenditure of funds. Uniformity in the classification of accounts has proved insufficient to provide significant comparison. Factors of collecting data such as time must be held uniform--a condition frequently not available in the accounts of many schools and in the resulting statistics compiled for all schools.

Budgetary procedure, influenced by management purposes, should become a much more important tool of financial evaluation than it is at present--unhampered, that is, by conflicting reasons for its use. The elasticity of the dollar yardstick in evaluating school values has been shown to accentuate an error in keeping school accounts. (Continued, P.225.)

From P.224 (continued). These conditions of school accounting impose limitations on the conclusions that can be drawn by school authorities as they attempt to arrive at management decisions. The conditions impose limitations often overlooked when state and national sources quote such statistics as "cost per educating a pupil"--a fictitious statistic that cannot but confuse a local citizen. These conditions call for action in districts to go beyond minimum standards for school accounts to measure more adequately both position and flow of their school values.

In the quarter century since the first edition of THE MEANING OF SCHOOL ACCOUNTS, school accounting has changed in many states toward accrual accounting and, probably because of increased Federal grants during the sixties and seventies, toward a kind of costing system which is more realistic than the cash basis, the norm of the early sixties.

On the threshhold of an electronic revolution, minicomputers the size of a typewriter possessing the power of a large room configuration of electro-mechanical equipment of the sixties are now available. Yet, data entering the most sophisticated equipment of 25 years hence will not alone ensure that those data will necessarily prove meaningful to school administrators--for "garbage in, garbage out," the adage of programmers through the numerous improvements of electro-mechanical computer devices, will continue to hold. (Go to P.226 for the Self-Test on Chapter 4.)



From P.225. Self-Test on Chapter 4

FACTORS IN EVALUATION OF CLASSIFIED SCHOOL ACCOUNTING DATA

Circle your answers to the following questions.

1. The legal basis for school accounts is dictated primarily by the needs of local management for data. a. true, b. false

2. Uniformity in the classification of school accounts throughout the country provides reliable data for comparison of school finances. a. true, b. false.

3. On a cash basis of accounting, the flow of values in, through, and out of the district is separated in terms of time. a. true, b. false.

4. If revenue accrued to a school but is not recognized in the accounts until the next fiscal period, what effect does this have on the revenue reported during the current period? a. overstates, b. understates, c. no effect.

5. Salaries accrued in the current fiscal period are not paid until the next fiscal period. On a cash basis, what is the effect on the reported expenses of the current period? a. overstated, b. understated, c. no effect.



(Continued, P.227)

From P.226 (continued).

6. An insurance premium was paid for three years in advance on a cash basis. What is the effect on the expenses of the period in which the premium is paid? a. overstated, b. understated, c. no effect

7. A prepaid three-year fire insurance premium was recorded as in No.6. What effect does this entry have on the reported cost of educating pupils during the second and third years? a. overstated, b. understated, c. no effect

8. What effect does the entry in No. 7 have on the reported assets in the year it is paid? a. overstated, b. understated, c. no effect

9. Failure to recognize in the books taxes receivable in the fiscal period in which they accrue to the district has what effect on the assets reported during that period? a. overstated, b. understated, c. no effect.

10. An expense of operating a bookstore recorded in a revolving fund is a cost of educating pupils. a. true, b. false.

(Continued, P.228.)



From P.227 (continued).

11. In fund accounting on a cash basis, the Capital Asset Fund reflects the cost value of a building less a reasonable allowance for use or depreciation. a. true, b. false.

12. Examination of the variance between estimated and actual is an example of management by exception. a. true, b. false.

13. Utilizing the budget for management purposes may be affected adversely when the budget becomes a legal tool for obtaining funds. a. true, b. false.

14. In accounting for a budget, entries for estimated receipts or authorized expenditures are made in the same way that actual receipts and expenditures will later be recorded. a. true, b. false.

15. Charging replacement equipment to current operating costs provides asset values in the books at or near current market values. a. true, b. false.

From P.228.

| Question Number | Answer | Review Page |
|---|---|---|
| 1 | b. false | 161-162 |
| 2 | b. false | 171 |
| 3 | b. false | 174 |
| 4 | a. overstates | 182-183 |
| 5 | b. understates | 177 |
| 6 | a. overstated | 179 |
| 7 | b. understated | 180 |
| 8 | b. understated | 177 |
| 9 | b. understated | 186 |
| 10 | b. false | 185 |
| 11 | b. false | 191 |
| 12 | a. true | 197 |
| 13 | a. true | 204 |
| 14 | b. false | 208 |
| 15 | b. false | 221-222 |